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GOVERNMENT AND ADMINISTRATION

The Civil List

The amounts payable to members of the Royal Family under the Civil List Acts to finance expenditure incurred in carrying out their official duties in 1987 have been announced by the Chancellor of the Exchequer.

The proposed sums were announced by the Chancellor of the Exchequer, Mr Nigel Lawson, on 17 March (*Hansard*, Vol 112, No 74, written answers, cols 445-6). They represent an underlying increase of 4·5 per cent over 1986 (figures for which are given in brackets) although the actual increase is 4·8 per cent due to the additional payment made to the Duke of York following his marriage in July 1986.

	1987 £
The Queen's Civil List	4,326,100 (4,136,800)
Queen Elizabeth, the Queen Mother	375,300 (359,100)
The Duke of Edinburgh	209,300 (200,300)
Princess Anne, Mrs Mark Phillips	130,400 (124,800)
The Duke of York	50,000 (33,300)
Prince Edward	20,000 (20,000)
Princess Margaret	127,000 (121,500)
Princess Alice, Duchess of Gloucester	51,400 (49,200)
The Duke of Gloucester	102,200 (97,800)
The Duke of Kent	138,000 (132,000)
Princess Alexandra, the Hon Mrs Angus Ogilvy	131,500 (125,800)
Total	5,661,200 (5,400,600)
Refunded by the Queen	371,700 (355,600)
	5,289,500 (5,045,000)

The sum refunded by the Queen to the Consolidated Fund is equivalent to the payments to the Duke of Gloucester, the Duke of Kent and Princess Alexandra. The annual sum payable to the Duke of York (Prince Andrew) was increased from £20,000 to £50,000 on marriage.

No special provision is made for the Prince of Wales who is entitled to net revenues from the Duchy of Cornwall although he surrenders a quarter of these to the Exchequer.

Recent Legislation

The public Acts of Parliament passed between December 1986 and 10 April 1987 when the Easter adjournment started are listed below. One Act was introduced by a private member; this is indicated by an asterisk.[1]

Advance Petroleum Revenue Tax Act 1986. Provides for repayments of certain amounts of advance petroleum revenue tax. Royal Assent: 18.12.86. Ch 68, ISBN 0 10 546886 X, HMSO, 80p.

Animals (Scotland) Act 1987. In Scotland makes provision over civil liability for injury or damage caused by animals and the protection of persons or livestock from animals. Royal Assent: 9.4.87. Ch 9.

Broadcasting Act 1987. Alters the maximum period for which programmes may be provided under contracts with the Independent Broadcasting Authority. Royal Assent: 9.4.87. Ch 10.

Coal Industry Act 1987 (see pp 390-1, 1986). Royal Assent: 4.3.87. Ch 3, ISBN 0 10 540387 3, HMSO, £2·90.

Consolidated Fund Act 1987. Gives parliamentary authority for sums to be issued out of the Consolidated Fund to meet the Government's expenditure requirements. Royal Assent: 25.3.87. Ch 8, ISBN 0 10 540887 5, HMSO, 45p.

Consolidated Fund (No 2) Act 1986. Gives parliamentary authority for sums to be issued out of the Consolidated Fund to meet the Government's expenditure requirements. Royal Assent: 18.12.86. Ch 67, ISBN 0 10 546786 3, HMSO, 45p.

Gaming (Amendment) Act 1987. Allows the hours for casino gaming on premises licensed under the Gaming Act 1968 to be extended. Royal Assent: 9.4.87. Ch 11.

[1]Further publication details on a few of these Acts were not available at the time of going to press.

**Licensing (Restaurant Meals) Act 1987.* Amends the Licensing Act 1964 by relaxing the daytime restrictions on the hours during which alcoholic drinks may be served with meals in restaurants. Royal Assent: 2.3.87. Ch 2, ISBN 0 10 540287 7, HMSO, 45p.

Local Government Finance Act 1987 (see pp 67-8). Royal Assent: 12.3.87. Ch 6, ISBN 0 10 540687 2, HMSO, £3·60.

Ministry of Defence Police Act 1987. Makes fresh provision for the Ministry of Defence Police. Royal Assent: 5.3.87. Ch 4, ISBN 0 10 540487 X, HMSO, £2·20.

Minors' Contracts Act 1987. Amends the law relating to contracts entered into by minors in England and Wales. Royal Assent: 9.4.87. Ch 13.

Petroleum Act 1987 (see pp 391-2, 1986). Royal Assent: 9.4.87. Ch 12.

Rate Support Grants Act 1987 (see p 96). Royal Assent: 12.3.87. Ch 5, ISBN 0 10 540587 6, HMSO, 45p.

Recognition of Trusts Act 1987. Enables the United Kingdom to ratify the convention on the law applicable to trusts and on their recognition signed in January 1986. Royal Assent: 9.4.87. Ch 14.

Reverter of Sites Act 1987. Amends the law relating to the donation of land for charitable purposes, thus remedying problems arising from disposal of land which has ceased to be used for the stated purpose. Royal Assent: 9.4.87. Ch 15.

Social Fund (Maternity and Funeral Expenses) Act 1987. Corrects a technical defect in the Social Security Act 1986 by giving the Secretary of State the power to prescribe in regulations the amounts to be paid for maternity and funeral expenses. Royal Assent: 17.3.87. Ch 7, ISBN 0 10 540787 9, HMSO, 45p.

Teachers' Pay and Conditions Act 1987. Repeals the Remuneration of Teachers Act 1965 and makes temporary provision for the remuneration and other conditions of employment of school teachers. Royal Assent: 2.3.87. Ch 1, ISBN 0 10 540187 0, HMSO, £2·20.

Carriers' Liability for Asylum Seekers

The Immigration (Carriers' Liability) Bill, which would allow charges to be imposed on airlines and shipping companies bringing passengers to the United Kingdom without the necessary valid documents, was given a second reading in the House of Commons on 16 March. The Bill has been introduced as a means of checking the recent increase in the numbers of people attempting to enter the United Kingdom by claiming asylum.

The Bill would enable a charge of £1,000 to be made for each passenger who requires leave to enter the United Kingdom and who arrives without a valid passport or equivalent document and without a visa if one is required. No liability would be incurred if the carrier could show that the passenger produced the required documents at the time of embarkation. A document would be regarded as genuine unless its falsity was reasonably apparent. The Bill would extend to the whole of the United Kingdom, the Channel Islands and the Isle of Man and would take effect retrospectively from 5 March 1987.

Home Secretary's Speech

Opening the second reading debate in the House of Commons (*Hansard*, Vol 112, No 73, cols 705-87) the Home Secretary, Mr Douglas Hurd, said that it was essential for immigration controls to work effectively. In recent months a loophole had been found by people requiring visas to enter the United Kingdom who arrived without them and claimed asylum. In the three months up to the end of February over 800 applications for asylum had been made by people arriving in Britain of whom nearly 500 were from Sri Lanka. (These included a group of 64 Tamils which had arrived on 13 February, most of whom were refused entry. Their cases were subsequently referred to the United Kingdom Immigration Advisory Service and individual decisions would be reached in light of the relevant facts.) Britain was not alone in facing such pressures: the Federal Republic of Germany, France, Denmark, Sweden, Canada, Belgium and the Netherlands had all been affected and most of these countries [and others] had taken or were taking action to check asylum abuse. The European Community had also agreed recommendations that included reference to the liability of carriers on much the same lines as the Bill.

If the abuse of asylum procedures was not checked a ready market would be provided for racketeers, and the properly organised asylum policy based on the 1951 United Nations convention [relating to the status of refugees] would be at risk. Mr Hurd said that he understood the concern that had been expressed about the effect of the Bill on genuine refugees but it was ill-founded. Until recently 90 per cent of applications for asylum were made by people already in the United Kingdom who, because of a change of circumstances in their home country, were unwilling to return. Another small group were those who found temporary refuge in other countries and applied at British posts abroad to enter Britain as refugees. In addition, from time to time special arrangements were made for groups of people still living in their country of origin, for example, Chileans in the 1970s and more recently Vietnamese [who arrived mainly between 1979 and 1981]. There was a special arrangement for Sri Lankan Tamils to obtain a visa in Colombo if they were suffering from severe hardship and had ties with the United Kingdom. Finally, there were cases of individuals coming from the Soviet Union and Eastern Europe. None of these groups of people would be affected by the legislation.

There had been long discussions about a right of appeal for those whose claim for asylum had been refused and previous Home Secretaries had explained why this was not possible. More than 28,000 people were refused entry in 1986; if only a small proportion claimed asylum an appeals system would be overwhelmed.

Opposition Views

The official Opposition spokesman on home affairs, Mr Gerald Kaufman, said that the Bill was hastily drafted and failed to take account of the predicament of genuine refugees from dictatorial or authoritarian regimes. The least the Government could do was to amend it so that the carrier would be absolved from the fine in respect of a person subsequently accepted as a bona fide asylum seeker. Instead of introducing the Bill overnight the Home Secretary should have gone to the United Kingdom Immigrants Advisory Service or to the United Nations High Commissioner for Refugees to try to find a solution to the problem.

The Liberal member, Mr Michael Meadowcroft, said that if every country took the action the Government was proposing to take there would be no means for a refugee to travel in an emergency. Tamils should be dealt with specifically as were the Vietnamese and Ugandan Asians [who were admitted in 1972]. The general issue of immigration should not be used to undermine the refugee principle.

Legal Aid, Advice and Assistance in England and Wales

Major changes to the organisation and administration of Britain's legal aid scheme were announced by the Government in a White Paper published in March. The reforms, which include the creation of a new Legal Aid Board to take over the running of the scheme, are aimed at ensuring that legal aid is provided efficiently and effectively and gives the best possible value for money.

The Legal Aid system was introduced in 1950 to ensure that people of small or moderate means received access to proper legal advice and to justice. There are separate schemes for civil proceedings, advice and assistance and for criminal proceedings. In addition, the assistance by way of representation scheme provides for representation in domestic proceedings in the magistrates' courts and mental health review tribunals. Since its introduction, the scheme has grown considerably and in 1986 some 200,000 individuals received legal aid to pursue or defend a civil case; about 500,000 received legal aid in connection with a criminal charge; and about 1,200,000 received advice and assistance from a solicitor. The scheme, which in 1986-87 is expected to cost around £400 million, is run under the general guidance of the Lord Chancellor. Criminal legal aid is administered by the courts, with certain functions being carried out by the Law Society and its Legal Aid Committee, composed of practising solicitors and barristers, two non-legally qualified members and a government representative, which is also responsible for the administration of civil legal aid and assistance.

The White Paper[1] sets out the Government's proposals for a new framework for the management and operation of the schemes in England and Wales, which will permit the various elements of administration to be brought together and advice and assistance to be provided in new ways. It is believed that the reforms, when fully carried into effect, will save about £10 million a year.

Publication of the White Paper follows the Government's consideration of a report of a scrutiny set up in January 1986 (see p 245, 1986). A detailed response to each of the main recommendations of the scrutiny's report is included in the paper.

Proposals

The main proposals outlined in the White Paper are summarised below.

Legal Aid Board

Under the present arrangements for the administration of legal aid the Law Society has the biggest role. Other bodies involved in the administration include the Department of Health and Social Security, magistrates' courts, the Crown Court and County Court Registrars. In an effort to improve efficiency, a new Legal Aid Board under the guidance of the Lord Chancellor is to be established to take over the running of the scheme from the Law Society. Comprising both lawyers and non-lawyers, all of whom will be chosen for their particular experience and skills, the Board will initially do no more than take over the functions currently performed by the Law Society. In the future, however, it is expected to assume responsibility for assessment of means, decisions on the grant of criminal legal aid, and at least some of the determination of legal bills now carried out in the courts.

Legal Advice and Assistance

Publicly funded legal advice is currently provided primarily through the legal advice and assistance (Green Form) scheme, under which a solicitor may act for a client until costs and expenses reach a total of £50 (£90 for certain matters relating to divorce), after which the agreement of the legal aid authorities must be obtained. Initial advice on many matters is also provided by agencies such as the Citizens Advice Bureaux, which, on some matters, provide assistance to more people than do solicitors in private practice. The new Legal Advice Board will be enabled to make alternative arrangements for the provision of advice and assistance for particular categories of work, especially where the possibility exists of making greater use of the expertise and skills of lay advice agencies in areas in which their special experience is likely to be greater than that of many solicitors in private practice.

Assistance in the making of wills and conveyancing will no longer normally be paid for out of public funds.

Applications, Contributions and Fees

The White Paper points out that at present only the applicant has any involvement in the process by which

[1] *Legal Aid in England and Wales: A new framework.* Cm 118, HMSO, £3·30. ISBN 0 10 101182 2.

legal aid is granted or denied, even though the grant of legal aid may have a major impact on his opponent. In the interests of justice, it is intended that the opposing party should in future have the right to make representation against the grant of legal aid before the application is determined. This will help to ensure that legal aid decisions are taken with the fullest possible knowledge of the facts.

Contributions towards the cost of civil legal aid, which under present arrangements are paid by applicants in 12 monthly instalments, will in future be paid throughout the duration of the case. This will bring legal aid in line with what happens in privately funded cases and should instil in litigants a sense of the cost of litigation. No one will be asked to pay more than the cost of their case.

In future, rates that determine what solicitors and barristers can charge for all legal aid work are to be set by the Lord Chancellor, and standard or 'fixed' fees are to be introduced more widely for particular items of work – such as matrimonial cases, for example – in place of fees charged on a time spent basis. The taxing, or determining, of lawyers' bills may then be done by county court staff rather than registrars.

EXTERNAL AFFAIRS AND DEFENCE

European Security

The need for the European members of the Atlantic Alliance to accept a greater responsibility for the defence of Western Europe was one of the major themes of a speech by the Foreign and Commonwealth Secretary, Sir Geoffrey Howe, in March.

Foreign and Commonwealth Secretary's Speech

Speaking to the Royal Institute of International Relations in Brussels on 16 March, Sir Geoffrey reminded his audience that the roots of today's division of Europe into the major blocs lay in war-time and post-war events. The advance of the Soviet empire in Eastern Europe, the pressure brought on Greece and Turkey, and the Berlin blockade had demonstrated to Europe and the United States the need for unity for self-preservation. This recognition led to the Brussels Treaty of 1948 which committed signatories, in case of an armed attack on one of them, to afford each other 'all the military and other aid and assistance in their power', and then to the 1949 North Atlantic Treaty. Europe had sought from the beginning to establish its own defence identity within the framework of the Alliance and, although proposals for a European Defence Community collapsed in 1954, the Brussels Treaty was renegotiated and under this Britain committed itself for the first time in its history to maintain permanent forces on the mainland of Europe.

Of the forces presently in place in Europe, Sir Geoffrey continued, European countries provided 90 per cent of the manpower, 85 per cent of the tanks, 95 per cent of the artillery, 80 per cent of the combat aircraft as well as 70 per cent of the fighting ships in the Atlantic, Channel and the North Sea. They also spent $110,000 million a year on defence, 30 per cent more in real terms than in 1971.[1] Seven of them also accepted the basing of nuclear weapons on their territory, while Britain and France possessed their own nuclear forces. At the same time, the United States' contribution – the nuclear shield and the 350,000 men stationed on the continent who guaranteed its credibility – remained as vital as ever to the Alliance's collective security. The military balance in Europe, he pointed out, was such that the Warsaw Pact had a superiority over NATO of nearly three to one in tanks, more than three to one in artillery, and two to one in tactical aircraft, as well as possessing hundreds of tons of chemical weapons. As for nuclear weapons, although there was rough parity at the strategic level, the Warsaw Pact's shorter-range systems outnumbered NATO's by nine to one. Furthermore, over the past 40 years the Soviet Union had more than once used its forces against those less well prepared than NATO to defend themselves, and the continuing rape of Afghanistan by the Soviet Union was a living reminder of what could happen to those who did not have the means to prevent it (see pp 18-21).

Against this background, Sir Geoffrey emphasised, Europe could not afford to take risks with its security, and nor could it feel secure on its own; its defence had to remain firmly grounded within the framework of the Alliance and on its strategy of deterrence, based on a mix of conventional and nuclear forces. While the Soviet Union maintained nuclear weapons, Europe too had to maintain the ability to withstand Soviet nuclear blackmail and to inflict 'massive and unacceptable damage on the Soviet Union itself', and this meant having at least some nuclear weapons. To avoid a nuclear 'yes or no' choice at the outset of any conflict, NATO had also to continue to work for improvements in its conventional defences in order to raise the nuclear threshold and, at the same time, to pursue balanced, equitable and verifiable arms control as set out by the North Atlantic Council in December 1986 (see pp 15-18). The recent progress in talks on intermediate nuclear forces (see pp 88-90), Sir Geoffrey added, completely vindicated NATO's policy of maintaining strong defences while seeking negotiated reductions.

Sir Geoffrey also pointed out that, while the United States had and would have a strong interest of its own in European security, Europe no longer dominated its thinking, with the Pacific, South-West Asia and Central America now taking a larger share of its time and attention. The sizeable European defence effort was often not fully appreciated there, and Europe had to do better at explaining what it did contribute. While the present United States administration was committed to NATO strategy, pressures within the United States for Europe to share more of the defence burden were unlikely to disappear, and Europe had to be alert to trends in American thinking which might in the longer term diminish its security. Europe also had to recognise a greater responsibility on the part of itself for the defence of Western Europe – 'in other words for a more truly equal second pillar of the Alliance'.

Europe's Nuclear Defences

Turning to the future, Sir Geoffrey said it was right and prudent to prepare for the possibility of a less nuclear world, that is, 'a continuation of a strategy of

[1]Among European members of the Alliance, Britain's contribution to the defence of Europe is 25 per cent of the manpower, 15 per cent of the tanks, 25 per cent of anti-tank guided weapons, 45 per cent of air defence aircraft, 30 per cent of ground attack aircraft, and 70 per cent of the readily available naval forces in the Atlantic and the Channel.

nuclear deterrence but one that is based on smaller quantities and a narrow range of systems'. He continued: 'For the foreseeable future Europe's security will depend on nuclear weapons. For our agreed policy of flexible response to be credible, an adequate nuclear capability is required, of a certain variety and mix. But there is no magic in particular numbers or systems. We do not envisage fighting a battlefield or theatre nuclear war confined to Europe. And our concept of deterrence is not based on a predetermined progression through specific layers of nuclear escalation.' If NATO countries could reduce numbers of weapons on the basis of a satisfactory *quid pro quo* from the Warsaw Pact they certainly should do so. That was why an intermediate-range nuclear forces (INF) treaty between the United States and the Soviet Union would be an important security gain, provided that the treaty's detailed provisions on verification and shorter-range systems were watertight. It would mean the elimination of a whole class of nuclear weapons which posed a major and unique threat to Western Europe while the removal of Pershing 2 and cruise missiles would still allow NATO enough nuclear weapons to maintain that element of uncertainty about its reaction which was crucial to deterrence.

European Co-operation

The strategy of forward defence of the Federal Republic of Germany, he went on, would remain the forward defence of Europe and indeed the forward defence of the West, and the allies could only protect their security by continuing to accept that an attack on one would be an attack on all. However, common defence meant common responsibilities. If Europe was to have a common security identity, it was right that all of its members ought to make a serious effort, commensurate with their economic resources. There was also a need for better value for money, and much had already been done: by transferring 4,000 army personnel from support to combat roles, Britain had been able to form a twelfth armoured regiment in the British Army of the Rhine (BAOR) and to re-equip three additional regiments with Challenger tanks; the front-line strength of the Royal Air Force had also been increased by 13 per cent with no net increase in manpower. However, the Alliance had to see what else could be done in the fields of economic management, defence procurement and the management of collaborative projects, in particular what lessons could be learned from past co-operation projects; whether collaboration could be improved in the field of military research; whether role specialisation, joint training or common programmes such as the airborne early warning programme which had been developed for NATO ought to be reviewed again; or how the Alliance was making the most of the developing role of the Independent European Programme Group.

Western European Union

There had been a growing perception, Sir Geoffrey explained, that a European forum was needed in which European countries could consult one another about their common security concerns (see pp 86-7), and recent developments from the Reykjavik summit (see pp 345-7, 1986) to the prospect of an agreement on intermediate-range nuclear missiles underlined the need for the European countries to consult more closely among themselves about their defence interests as well as with the United States. 'A Europe which gets its own ideas straight', he pointed out, 'is a far more rewarding partner for the United States; and far more likely to have its views taken seriously than a Europe which speaks with a multitude of voices. If we want our particular European concerns to be clearly perceived and taken into account in negotiations between the United States and the Soviet Union, then we must argue them out clearly among ourselves and come wherever possible to a common view.' It was this that Europe had been attempting increasingly to do within the Western European Union (WEU). The WEU had to avoid duplicating work done elsewhere or becoming obsessed with institutional problems at the expense of the practical contribution. NATO itself had to remain the decision-making forum for defence matters, with the WEU bringing more not less strength to the Alliance.

On the question of broadening the WEU's membership,[1] Sir Geoffrey said that this had to be balanced against the importance of maintaining its sense of cohesion and purpose, as its present members all saw broadly eye to eye on both the nuclear and the conventional aspects of defence. The test of membership had to be readiness to accept and implement in full the commitments of the Brussels Treaty and to make the practical military dispositions to give effect to them. The accent of the WEU's activities had to be on the practical not the theoretical, making headway in such things as the standardisation of equipment, the elimination of waste and the rationalisation of infrastructure and support services.

Conclusion

Concluding, Sir Geoffrey said that, while the Atlantic Alliance was and had to remain the ultimate guarantor of European security, it had to adapt to changing circumstances including the management of differences of perception between the United States and Europe. 'A better European defence effort, galvanised perhaps through the WEU, can lead to a more substantial European pillar of the Alliance. It can help the United States to justify to sceptics the maintenance of its own contribution to European defence.' To achieve that, however, the European nations had to show that they were willing to take proper responsibility for their defence: 'That is in the interests of Europe. It is in the interest of the United States. And it is in the best interest of the Alliance which guarantees peace with freedom for the great democracies on both sides of the Atlantic.'

British-Soviet Relations

Increased mutual understanding and agreements for bilateral co-operation were among the results of a visit by Britain's Prime Minister, Mrs Margaret Thatcher, to the Soviet Union at the end of March. The visit was the first by a British Prime Minister to the Soviet Union since 1975.

[1]The WEU consists of Belgium, Britain, France, the Federal Republic of Germany, Italy, Luxembourg and the Netherlands.

The Prime Minister visited the Soviet Union between 28 March and 1 April, accompanied by the Foreign and Commonwealth Secretary, Sir Geoffrey Howe. The Prime Minister had extensive discussions with the Soviet leader, Mr Mikhail Gorbachev, covering arms control, regional issues such as Afghanistan, and human rights in the Soviet Union, and delivered a speech at a banquet given for her by the Soviet Government in Moscow on 30 March. On 31 March she had talks with the Soviet Prime Minister, Mr Nikolai Ryzhkov, on bilateral trade, while the Foreign and Commonwealth Secretary and the Soviet Foreign Minister, Mr Eduard Shevardnadze, signed agreements which are designed to improve the direct communication link (the 'hotline') between London and Moscow, to increase British-Soviet collaboration in space science, and to further co-operation in culture, information and education. Mrs Thatcher also attended service in a church at Zagorsk, toured a new housing development and gave an interview on Soviet television which was broadcast in full. She had meetings with Dr Andrei Sakharov, who had been released from internal exile in December 1986, and his wife Mrs Yelena Bonner and with Mr Josif Begun, a leading Jewish dissident released from prison in March. The Prime Minister ended her Soviet journey by visiting the Republic of Georgia.

The Prime Minister's Statement

Mrs Thatcher made a statement of her visit to the Soviet Union in the House of Commons on 2 April (*Hansard*, Vol 113, No 86, cols 1223-5). Part of her statement reads as follows (headings added):

'The most important aspect of my visit was of course the very extensive talks which I had with General Secretary Gorbachev. These covered the following subjects: first, the prospects for agreements on reductions in nuclear, chemical and conventional weapons; second, the fundamental differences between our two political systems and their wider consequences; third, Mr Gorbachev's programme of restructuring of Soviet society and the Soviet economy; fourth, international regional problems; and fifth, human rights.

Arms Control and Disarmament

'In our talks on arms control we agreed that priority should be given to an agreement on intermediate-range nuclear weapons, with strict verification, with constraints on shorter-range systems and with immediate follow-on negotiations to deal more fully with shorter-range systems.

'We did not reach agreement on NATO's belief that the West should have a right to match Soviet shorter-range systems, or over the precise systems which should be covered in the follow-on negotiations.

'I should add that I made it clear to Mr Gorbachev that the United Kingdom would not be prepared to accept the denuclearisation of Europe, which would leave us dangerously exposed to Soviet superiority in conventional and other forces.[1]

'We also agreed that priority should be given to negotiating a ban on all chemical weapons. The United Kingdom has made important proposals on this in Geneva and Mr Gorbachev indicated that the Soviet Union could broadly accept our approach [see p 180, 1986].

'We agreed that there should be early negotiations on reductions in conventional forces, in which, as the House knows, the Soviet Union has a substantial preponderance. I expressed our support for a 50 per cent reduction in strategic nuclear weapons. Mr Gorbachev made clear the Soviet view that this matter was linked to agreement on SDI [Strategic Defence Initiative].

'I made a number of proposals for achieving greater predictability in this field which Mr Gorbachev will consider. Deployment of an advanced strategic defence system would of course be a matter for negotiations, as President Reagan and I agreed at Camp David in December 1984 [see pp 11-12, 1985].

'I do not underestimate the differences which remain between us on these matters. It was none the less clear from our talks that we agree that progress on arms control requires a step-by-step approach with clearly identified priorities, and that we are largely in agreement on what those priorities shall be. This is a useful and positive step, and I am hopeful that a satisfactory agreement can be reached on intermediate nuclear forces by the end of this year.

Afghanistan

'In our discussion of regional problems, I explained to Mr Gorbachev the reasons for Western apprehensions about Soviet policies and intentions. I said – and the Foreign Secretary made the same point to Mr Shevardnadze – that the United Kingdom could support the creation of a neutral, non-aligned Afghanistan, and had indeed presented proposals for it as long ago as 1980. However, this could not be achieved until the Soviet occupation was ended and elections were held [see pp 18-21].[1]

Human Rights

'On human rights problems, I welcomed the steps which had already been taken, while expressing the hope that more prisoners of conscience and dissidents would be released, and that Jews would be allowed to leave the country should they wish to do so. I emphasised that we were not interfering in the Soviet Union's internal affairs: the Soviet Government had accepted the commitments in the Helsinki Final Act on the freer movement of people and ideas, and we were asking that these be observed. Mr Gorbachev said that the Soviet Government considered all humanitarian cases very carefully, and would continue to deal with them attentively, with positive results where possible.

Soviet Reforms

'I told Mr Gorbachev of our welcome for his policies of openness, restructuring and democratisation. We

[1]In April Mr Gorbachev stated that the Soviet Union was also willing to start negotiations on shorter-range and tactical nuclear weapons, together with discussions on conventional armaments.

[1]Asked in the House about the progress being made on the withdrawal of Soviet troops from Afghanistan, Mrs Thatcher said: 'We pointed out that the withdrawal of troops should be accompanied by free elections for people to determine their own future. This is one of those occasions on which there is a considerable difference between the two sides. We believe in a plural society, and they do not. Communism is a fundamental part of their constitution. They have no clear idea of the way in which they wish to go. We have made it clear that one of the touchstones by which we shall judge them and by which we shall judge more openness in their society is how soon they withdraw the occupation troops.'

wish him all success in his endeavours. They point the way to the greater trust and confidence that will be needed if we are to reach agreement on arms control and in other areas. . . .

'My visit took place at a most interesting and crucial moment in the development of the Soviet Union. I firmly believe that it is in our interest to welcome and encourage the course on which Mr Gorbachev has embarked. Our political systems will remain very different and we shall continue to hold widely divergent views on many international problems, but Mr Gorbachev and I were able to discuss these differences frankly in a spirit of friendship. When I took my leave of him, Mr Gorbachev expressed the Soviet Union's willingness for wider co-operation in every field with the United Kingdom. That was a positive end to a most constructive and valuable visit.'[1]

Bilateral Agreements

In their discussions, Mrs Thatcher and Mr Ryzhkov agreed to try to achieve by 1990 a volume of bilateral trade of £2,500 million, something that would require each side to increase its trade by some £350-400 million over its present export levels. Some £400 million worth of contracts and letters of intent were signed or initialled during the visit.

The 'hotline' agreement is designed to improve the hotline between London and Moscow that had been set up in 1967, establishing and bringing into operation an encrypted facsimile link of mutually agreed satellite and cable channels. The agreement will ensure continued reliability and increased quality and speed of operation of the existing system.

The space agreement follows a protocol signed in October 1986 between the British National Space Centre and the Soviet Institute of Space Research which identified areas of joint research. The new agreement will consolidate and formalise the existing collaboration between Birmingham and London Universities and the Soviet Institute and will provide for co-operation in classical space sciences such as X-ray astronomy; high energy astrophysics, solar and terrestrial physics; and life and material sciences, for example, the effects of weightlessness in space. The agreement also provides for co-operation through exchanges of experts and experience, sharing in joint research projects such as sending a probe to Phobos, the larger of two satellites of Mars.

The memorandum of understanding on co-operation in culture, information and education provides for annual public lectures by distinguished Soviet and British public figures in each other's countries; exchange weeks in Kiev and Birmingham; the encouragement of joint television and radio programmes and of links between newspapers and magazines; and the exchange of secondary school students. The agreement also includes commitments to facilitate free and normal access to cultural events and not to jam each other's broadcasts.

Britain and the Soviet Union also signed an agreement which would provide for a cost-free exchange of sites in London and Moscow for the building of new Soviet and British embassies.

Mrs Thatcher's Speech

Mrs Thatcher said that the West welcomed the opportunities which Mr Gorbachev's proposed changes would bring for the prosperity and well being of the Soviet people and for the prospects for increasingly open contacts with other countries and peoples. National boundaries could no longer keep countries and peoples in separate compartments. One country's policies, practices and standards increasingly affected the lives of others and they in turn were affected by the hopes and ambitions of other people. The need to consider the impact abroad of what happens within a state, she stressed, applied most crucially to the question of how one could establish greater confidence and trust between the countries of East and West; this was vital if agreements were to be reached to reduce the burden of armaments. These depended not only on the skill of the negotiators, but more fundamentally on how governments and peoples viewed each other, what they believed about each other's intentions, how they judged each other's readiness to honour commitments and how they judged each other's long-term objectives in the wider world. The West sought no-one else's territory or possessions. Nor did it seek to impose its political system on others. Instead, it fought the battle of ideas by letting the results of its democratic systems speak for themselves. It was only natural that statements calling for the total triumph of socialism all over the world were seen as a threat by the people of the West.

The question of human rights and the extent to which the Soviet Government had met the commitments freely undertaken in the Helsinki Final Act, Mrs Thatcher continued, would determine how far other governments would have confidence in Soviet undertakings on, for instance, arms control. She welcomed the steps Mr Gorbachev had taken in releasing prisoners of conscience, and said: 'The greater your readiness to release prisoners of conscience and to allow all those who wish to do so freely to leave their country . . ., the greater the readiness that you will find in the West to believe that peaceful and friendly relations with the Soviet Union cannot only be maintained but extended.'

Afghanistan

The Soviet Union's readiness to withdraw its armies from Afghanistan with the shortest possible delay so that the Afghan people could exercise their rights to self-determination would also play a crucial part, not only in the future of Afghanistan but also in deciding how other countries regarded the Soviet Union. Mr Gorbachev would have Britain's full support in implementing a solution which would allow an independent and genuinely non-aligned Afghanistan to live in friendly relations with all its neighbours.

Security and Disarmament

Every nation had the right to be secure and to feel secure, Mrs Thatcher pointed out. The West found its security in the Atlantic Alliance, a defensive alliance that bound Europe with the United States. It was a mistake to believe that the two could be divided as they were inseparable on the fundamentals and on their determination to defend their democratic values.

[1]During questions after her statement, she said: 'For the first time since the revolution 70 years ago, there is now an understanding that the Soviet system, as it exists at present, is not working. It must become a more open society with a more incentive-based economy and more distribution of responsibility. We should welcome that change of direction, and hope that increasing openness will lead to increasing discussion, and that that will lead to an increasing security with neighbours.'

It was because of their unity and their hopes for greater confidence between East and West that NATO countries were ready to look for ways to achieve security at lower levels of armaments in a step-by-step approach. The priorities for this were an intermediate nuclear weapons agreement with restraints on shorter-range systems, a 50 per cent cut in US and Soviet strategic offensive systems and a worldwide ban on chemical weapons; and reductions in these areas would enhance the importance of eliminating disparities in conventional forces.

The validity of a step-by-step approach had been recognised by Mr Gorbachev in his proposal on intermediate nuclear forces on 28 February, but at each stage of the negotiations it had to be ensured that each side enjoyed undiminished security taking all categories of armaments into account. There had to be real progress in negotiations to deal with the Warsaw Pact's superiority in conventional forces, and Mrs Thatcher agreed with Mr Gorbachev that the way to achieve this was not for the side with less to increase its forces but for the one with more to reduce them. Cuts in strategic weapons should also be within reach, although there was no reason why they should be dependent on limitations on the United States' SDI; one could not stop such research any more than one could stop the onward march of science in general, and she pointed out that the Soviet Union was carrying out similiar work. Although she believed that there would never be a complete defence against strategic nuclear weapons, one could not foreclose on the chance that defences could make a valuable contribution to a more stable relationship. SDI research ought to be managed so that neither side felt threatened by it; already it was agreed that SDI deployment would become a matter for genuine negotiation (see pp 11-12, 1985), but a further step to create confidence could be to have a timetable spelling out the planned research of both parties supported by a commitment not to withdraw from the Anti-Ballistic Missile Treaty for a fixed period.

Agreements in these areas, with provisions for strict verification, would be a remarkable achievement, and it would not make sense to try to look beyond them. Noting that conventional weapons had never been enough to deter war, she emphasised that, without far greater trust and confidence between East and West than existed at present, a world without nuclear weapons would be less stable and more dangerous. That was why the British Government would not abandon the security provided for Britain and for the NATO alliance by nuclear weapons. Britain's own nuclear forces would remain at the minimal level needed to guarantee its security and contribute to the security of its allies.

Background

Since becoming General Secretary of the Soviet Communist Party in July 1985 (see p 226, 1985), Mr Gorbachev has been carrying out a reform programme, based on openness ('Glasnost'), notable in the amount of open criticism of the mistakes and failures in the recent past and of mismanagement and malpractice by party organisations; political restructuring; and 'democratisation' that would lead to a 'revolutionary and comprehensive transformation of society'. Soviet economic reforms are aimed at making enterprises operate more commercially and giving workers a say in how factories are to be managed. Political restructuring aims to increase party efficiency and to render it less prone to corruption, though its central position in the Soviet political system remains unaffected. Mr Gorbachev proposed at a plenum of the Soviet Communist Party's Central Committee in January 1987 that middle-ranking secretaries of party committees be elected by secret ballot from an unlimited list of candidates put forward by members of the relevant committees (the current practice being for the committee to elect unanimously the candidate 'recommended' by the immediately senior party body). He has also made some concessions over human rights, including in recent months the release of Dr Sakharov, Mr Begun and some 140 dissidents convicted of 'anti-Soviet agitation and propaganda'. One of the results of the freer cultural atmosphere under Mr Gorbachev has been the rehabilitation of literary figures (Boris Pasternak, for example) and books previously out of favour for political reasons. Broadcasts of the Russian Service of the BBC are now being heard in the Soviet Union for the first time since 1980.

Turks and Caicos Islands

The Government has accepted the main findings of a Constitutional Commission set up to review the constitution of the Turks and Caicos Islands and make recommendations for the dependency's future administration.

The Constitutional Commission[1] was appointed under the chairmanship of Sir Roy Marshall following a decision to amend the constitution of the Islands, a British dependency in the Caribbean with a system of internal self-government, after the resignation of the Chief Minister and two other Ministers in July 1986 (see p 271, 1986).

Parliamentary Statement

In a statement to the House of Commons on 31 March (*Hansard*, Vol 113, No 84, cols 903-4), Mr Tim Eggar, Parliamentary Under-Secretary of State at the Foreign and Commonwealth Office, explained that the decision to amend the constitution, and to suspend ministerial government in the Turks and Caicos Islands, had been an interim measure pending the outcome of the review. The British Government's objectives had been to ensure that past failures were rectified and the Islands received a constitution which provided for responsible government; that Britain discharged its ultimate responsibility for good administration; and that the Islands' future political, social and economic development was assured.

The Government had accepted the Commission's central recommendation that there should be a return to ministerial government, which would be underpinned by a series of new constitutional provisions and other safeguards, reflecting Britain's commitment to, and the islanders' desire for, democratic expression and responsible administration. The safeguards were:

[1]*Turks and Caicos Islands. Report of the Constitutional Commission 1986*. Cm 111. HMSO, £5. ISBN 0 10 101112 1.

larger multi-member constituencies to prevent patronage; more regular Legislative Council sittings; the introduction of a committee system to provide greater ministerial accountability; and administrative checks – including the appointment of a public service commission, an ombudsman and a resident auditor to ensure an independent civil service and better financial discipline.

The Commission's proposals would be strengthened in a number of ways, Mr Eggar said. While agreeing with its recommendations for a five-year disqualification period for convicted persons, for example, the Government considered that that might be too complex and proposed a simpler alternative, whereby anyone convicted by a court of law in any country of a criminal offence carrying a sentence of 12 months or more would be disqualified from standing for election. It also proposed that, after full consultation with the Chief Minister, the Governor should be able to decide whether certain ministerial responsibilities should be allocated to elected members of the Executive Council. Similarly, after consultation with the Chief Minister, he would be able to withdraw a responsibility from a minister, if he believed that that was necessary.

The Commission had also been concerned about the limitations of the present jury system. The Government agreed that the right to trial by jury should be retained, while providing defendants with a right to opt for trial by judge alone, and proposed that the majority of jurors in any particular case should not be drawn from the island of origin or residence of the accused. The judicial system would be further strengthened by the appointment of a resident chief justice.

Mr Eggar pointed out that since it would take time to prepare the necessary constitutional amendments and establish the supporting electoral and administrative measures, new elections would be held in April or May 1988, when they were due under the present constitution. Until that time the territory would continue to be administered by the present interim government. Priority would be given to the Commission's recommendation that there should be a national development plan, co-ordinated under a central planning unit, and steps would be taken to ensure that capital aid (over £5 million a year) was used effectively.

Concluding, Mr Eggar said that the Commission had made it clear that patronage and malpractice had existed under recent governments in the Turks and Caicos Islands. The British Government was now providing the framework for fair and effective administration and the proper use of taxpayers' money, and was confident that the new measures would receive the support of the islanders, who had been extensively consulted and would welcome the return of representative and responsible government.

Shorter Note

SOUTH PACIFIC NUCLEAR FREE ZONE

In a written answer given to the House of Commons on 24 March, Mr Timothy Renton, a Minister of State at the Foreign and Commonwealth Office, stated that after careful consideration the British Government had concluded that it would not serve Britain's national interest to become party to the three protocols to the 1985 Treaty of Rarotonga which seeks to establish a nuclear-free zone in the south Pacific. It would, however, respect the intentions of the south Pacific states, as set out in the protocols relating to prohibitions in the treaty on nuclear explosive devices. Britain had no intention of testing, manufacturing or basing nuclear weapons on the only British territory within the area covered by the treaty, Pitcairn. Further, it reaffirmed its undertaking given in 1978 to non-nuclear weapon states which are parties to the 1968 Non-Proliferation Treaty or equivalent commitments, not to use nuclear weapons against such states except in the case of an attack upon Britain, its dependent territories, its armed forces or its allies by such a state in association or alliance with a nuclear weapon state. Britain also had no intention of conducting nuclear tests in the south Pacific. In his statement, Mr Renton pointed out that the Government would keep its attitude to the treaty and the protocols under review.

The Rarotonga Treaty was negotiated by the 13 member states of the South Pacific Forum (Australia, the Cook Islands, Fiji, Kiribati, Nauru, New Zealand, Niue, Papua New Guinea, the Solomon Islands, Tonga, Tuvalu, Vanuatu and Western Samoa) between 1983 and 1985, and is the second treaty designed to establish a nuclear-free zone. The first zone was created in Latin America in the 1967 Treaty of Tlatelolco, and Britain was the first nuclear-weapon state to ratify the two additional protocols under which it undertakes to respect the aims and provisions of the treaty.

Source: *Hansard*, Vol 112, No 77, written answers, col 639.

ECONOMIC AND SCIENTIFIC AFFAIRS

The Budget

A cut in the basic rate of income tax from 29 to 27 per cent and the introduction of tax relief for profit-related pay are two of the measures in the Budget, presented by the Chancellor of the Exchequer, Mr Nigel Lawson, on 17 March, aimed at maintaining vigour and enterprise in the British economy. Public borrowing will continue to be held at a low level. The forecast for 1987 is for another year of balanced growth with low inflation.

The main Budget proposals are outlined below, followed by a fuller account of the Chancellor's statement. Tables are taken from the *Financial Statement and Budget Report 1987-88*,[1] published on Budget day.

SUMMARY OF PROPOSALS

Taxation

Income Tax

Basic rate cut from 29 to 27 per cent. Personal allowances raised in line with inflation. Thresholds for the 40 per cent and 45 per cent higher rate bands increased.

Profit-related Pay

Introduction of income tax relief for profit-related pay.

Corporation Tax

Small companies' rate and the rate of advance corporation tax both reduced from 29 to 27 per cent.

Value Added Tax

Increase in registration threshold from £20,500 to £21,300.

Excise Duties

Reduction of 5p a gallon in the duty on unleaded petrol.

Inheritance Tax

Threshold raised from £71,000 to £90,000.

Capital Gains Tax

Threshold for individuals increased from £6,300 to £6,600.

Petroleum Revenue Tax

Two extensions of relief.

[1] *Financial Statement and Budget Report 1987-88*. HM Treasury. HMSO, £6·90. ISBN 0 10 219487 4.

Monetary Policy

Continuation of medium-term financial strategy, with a target rate of growth for narrow money in 1987-88 of 2 to 6 per cent.

Public Borrowing

Public sector borrowing requirement (PSBR) in 1987-88 set at £4,000 million, the same as the expected outturn in 1986-87.

Economic Forecast

Gross domestic product (GDP) expected to grow by 3 per cent in 1987. Annual rate of inflation may rise temporarily to a little over 4·5 per cent during the year but should fall back to around 4 per cent by the fourth quarter. Deficit on the current account of the balance of payments forecast at £2,500 million in 1987. Good prospects for a continuing fall in unemployment over the year.

CHANCELLOR'S STATEMENT

Introducing the Budget in the House of Commons (*Hansard*, Vol 112, No 74, cols 815-28), the Chancellor said that the setting was more favourable than it had been for many years. Britain was now entering its seventh successive year of steady growth and the fifth in which this had been combined with a low rate of inflation. 'The public finances are sound and strong,' Mr Lawson declared, 'and unemployment is falling. These are the fruits of the Government's determination, in bad times as well as good, to hold firmly to our policies of sound money and free markets.'

Economic Background

The Chancellor explained that 1986 had been dominated by the sudden collapse in the oil price (see p 193, 1986). As a major oil producer and exporter, Britain had been affected not only directly but also by the pause in global growth as the world economy adjusted. Despite this dislocation, however, the economy had developed in most respects as forecast in the 1986 Budget (see pp 120-6, 1986).

Output had grown by 2·5 per cent or so in 1986, a rate that compared favourably with those of other industrialised countries. During the 1960s and 1970s Britain's growth rate had been the lowest of the major European countries: by the 1980s it was the highest.

This improved rate of growth had been accompanied by a falling rate of inflation; at 3·5 per cent in 1986 it was its lowest for almost 20 years. The annual rate had averaged less than 5 per cent over the lifetime of the present Parliament.

During the first half of 1986 exports – and hence output – had been affected by the pause in world

growth. Since the middle of 1986, however, exports as well as manufacturing output had grown strongly.

This resurgence of growth, coupled with the Government's special measures (see pp 124, 1986, and 61-2), had brought about 'a welcome fall' in unemployment. Though this was still far too high, the Chancellor declared, both youth and long-term unemployment were lower than a year ago. The Government had developed its employment and training programmes on a scale unmatched in any other country. 'But the best hope of all for the unemployed is in the continued vigour of the economy.'

There had been 'a further surge' in manufacturing productivity since early 1986, continuing the marked improvement in productivity growth already seen in the 1980s. During the 1960s and 1970s Britain's annual rate of growth of output per head in manufacturing had been the lowest of the seven major industrialised countries: in the 1980s it was the highest.

The current account of the balance of payments went into deficit in 1986 by about £1,000 million. Some deterioration, the Chancellor explained, was inevitable in the light of the sudden loss of £4,000 million in oil earnings. But its significance should not be exaggerated. The adjustment in the exchange rate that followed the fall in the oil price was already contributing to an improvement in the performance on non-oil trade. Also, earnings from the large stock of net overseas assets acquired since the abolition of exchange controls (see p 162, 1980) would provide continuing support to the current account in the years ahead; at well over £100,000 million, Britain's net overseas assets were now greater than at any other time since the second world war and second only to those of Japan.

Turning to the future, the Chancellor said that he expected 1987 to be another year of balanced growth with low inflation. Total output was forecast to rise by 3 per cent with exports and investment increasing by rather more. Britain would then have recorded its longest period of steady growth since 1945 at an annual rate approaching 3 per cent. Manufacturing should perform particularly well; with the non-oil economy set to grow by 3·5 per cent, 'there is every prospect of unemployment continuing to fall throughout the year'.

Despite the strong growth in exports, it would inevitably be some time before the exchange rate adjustment took full effect; the current account was therefore likely to remain in deficit in 1987, by some £2,500 million, equal to around 0·5 per cent of GDP.

The annual rate of inflation might continue to increase for a while, perhaps exceeding 4·5 per cent by the summer, before falling back to about 4 per cent by the end of the year. 'While short-term fluctuations are inescapable, it remains the Government's prime objective to keep inflation on an underlying downward trend', Mr Lawson said.

He went on to say that, if Britain continued its present policies, the biggest risk to its 'excellent prospect' was that of a downturn in the world economy. The three major economies – the United States, Japan and the Federal Republic of Germany – were still afflicted by serious imbalances which, if not properly handled, could lead to a simultaneous downturn in all three. This could, in turn, be exaggerated by renewed turmoil in the foreign exchange markets. It was to address these dangers that the finance ministers and central bank governors of six leading industrialised countries had met in Paris in February, agreeing, among other things, to co-operate closely in maintaining exchange rates around their existing levels (see pp 95-6). However, wider risks remained.

Short of a world downturn, 'which can and must be avoided', British industry had an outstanding opportunity, 'with growing markets at home and overseas, low inflation, rapidly growing productivity and greatly improved profitability'. Provided it could control its costs, maintain its competitive advantage and continue its present policies, Britain could 'look forward to many more years of strong growth combined with low inflation'.

Monetary Policy

The Government would keep in place 'a sound and prudent financial framework', namely, a continuation of the medium-term financial strategy (see p 113, 1980). The central objective of the strategy was gradually to reduce the growth of money GDP over the medium term so as to squeeze inflation out of the system and ultimately to achieve price stability. This called for monetary discipline supported by a low level of public sector borrowing. The essential instrument of monetary policy would remain short-term interest rates, which would continue to be set according to monetary conditions as indicated mainly by the growth of the money supply and the behaviour of the exchange rate. The target growth range in 1987-88 for narrow money (M0)[1] would be 2 to 6 per cent, as announced in the 1986 Budget. However, as the Governor of the Bank of England had argued in a speech in October 1986, it was probably wise to eschew an explicit target for broad money. It would, nevertheless, continue to be taken into account in assessing monetary conditions.

Public Sector Borrowing

The PSBR in 1986-87 was likely to be only £4,000 million (1 per cent of GDP) compared with the £7,000 million forecast in the 1986 Budget. This would be the second successive year in which the outturn had been significantly lower than forecast. This was chiefly attributable to the buoyancy of non-oil tax revenues, particularly the corporation tax paid by an increasingly profitable business sector.

Because of the continuing uncertainty regarding oil prices, the Chancellor said he was keeping to his 1986 Budget assumption of an average North Sea oil price of $15 a barrel. However, it was clear that the increased flow of non-oil tax revenues as well as the prospective further growth of the economy at a rate higher than that of public expenditure meant that the public finances were in a very strong position, which the Government intended to maintain.

Mr Lawson felt that the PSBR in 1987-88 should be below the £7,000 million provided for in the 1986 Budget. Since its inception, the financial strategy had indicated a steadily declining path for the PSBR as a percentage of GDP. This had now reached 'its appropriate destination' – a PSBR equal to 1 per cent of GDP. The aim now was to keep it at this level, and this would entail a degree of 'fiscal prudence' that, until this year, had been achieved only twice since

[1]Notes and coin in circulation with the public and banks' holdings of cash and their operational balances at the Bank of England.

Table 1
Growth of Money Supply and Money GDP

Percentage change during year

	1986-87	1987-88	1988-89	1989-90	1990-91
Narrow money – M0	4*	2–6†	1–5‡	1–5‡	0–4‡
Money GDP	6*	7·5§	6·5||	6·0||	5·5||

*Estimated outturn.
†Target range.
‡Illustrative range.
§Forecast.
||Government's broad medium-term objective.

Table 2
Public Sector Borrowing

£'000 million

	Estimated outturn 1986-87	Plans 1987-88	1988-89	1989-90	1990-91
Public expenditure planning total	140	149	154	162	168
Gross debt interest	17	18	18	19	19
Other adjustments	7	7	8	8	8
General government expenditure	*165*	*174*	*180*	*188*	*196*
Taxes on incomes, expenditure and capital	119	128	136	144	152
National Insurance and other contributions	27	28	30	32	34
Interest and dividends	6	6	6	6	6
Other receipts	7	7	6	6	6
Accruals adjustment	—	—	—	−1	−1
General government receipts	*159*	*169*	*178*	*187*	*197*
Fiscal adjustment from previous years*	—	—	—	3	5
Annual fiscal adjustment*	—	—	3	2	2
General government borrowing requirement	*6*	*5*	*5*	*6*	*6*
Market and overseas borrowing of public corporations	−2	−1	−1	−1	−1
Public sector borrowing requirement	*4*	*4*	*4*	*5*	*5*
As percentage of GDP	1	1	1	1	1

*Implies lower taxes or higher expenditure than assumed in totals for general government expenditure and receipts.
Note: Differences between totals and the sums of their component parts are due to rounding.

1950. The PSBR for 1987-88 would therefore be set at £4,000 million.

Mr Lawson admitted that such a low PSBR greatly diminished the scope for a reduction in the burden of taxation, which remained a major government objective. However, he felt it right to err on the safe side and to build a still firmer base for the future.

During the present period of sustained growth, the PSBR, even if no account were taken of the proceeds from privatisation, had fallen steadily from a little under 6 per cent of GDP to just over 2 per cent.

Exchange Controls

Even though exchange controls had been abolished in 1979, the Exchange Control Act remained on the statute book; it would now be repealed.

Business and Enterprise

Two main changes, expected to yield £60 million in 1988-89, were proposed to corporation tax on capital gains made by companies.

First, the provision whereby such gains were scaled down and then taxed at the full corporation tax rate – to yield an effective tax rate of 30 per cent, the same as that on capital gains made by individuals – would be abolished. (The practice dated from the time when the rate of corporation tax was considerably above that of capital gains tax. This was no longer the case: indeed, the small companies' corporation tax rate was now below the capital gains tax rate.) Companies' capital gains would now be taxed at the appropriate unadjusted rate of corporation tax.

Table 3
Consolidated Fund Revenue

£ million

	1986-87 forecast in 1986 Budget	1986-87 latest estimate	1987-88 forecast in 1987 Budget
Inland Revenue			
Income tax	38,500	38,300	39,900
Corporation tax*	11,700	13,400	15,000
Petroleum revenue tax†	2,400	1,260	1,680
Capital gains tax	1,050	1,050	1,300
Development land tax	35	55	20
Inheritance tax‡	910	990	1,100
Stamp duties	1,430	1,840	2,100
Total Inland Revenue	*56,000*	*56,900*	*61,100*
Customs and Excise			
Value added tax	20,700	21,500	23,300
Oil	7,300	7,500	7,800
Tobacco	4,700	4,700	4,800
Spirits, beer, wine, cider and perry	4,400	4,200	4,300
Betting and gaming	800	760	800
Car tax	980	980	1,100
Other excise duties	20	20	20
European Community own resources			
Customs duties, etc	1,300	1,290	1,350
Agricultural levies	160	220	230
Total Customs and Excise	*40,400*	*41,200*	*43,800*
Vehicle excise duties§	2,500	2,500	2,600
Gas levy	500	520	490
Broadcast receiving licences	1,000	1,010	1,030
Interest and dividends	840	870	1,020
Other‖	7,400	8,100	7,600
Total Consolidated Fund ¶ revenue	*108,600*	*111,100*	*117,500*
Memorandum item:			
Net of repayments	4,100	4,400	4,700

*Including advance corporation tax.
†Including advance payments.
‡Including estate duty and capital transfer tax.
§Including driving licence receipts.
‖Including the 10 per cent of own resources refunded by the European Community to meet the costs of collection, privatisation proceeds and oil royalties.
¶The Consolidated Fund is the account at the Bank of England into which tax receipts, excise duties and other revenues are paid.
Note: Differences between totals and the sums of their component parts are due to rounding.

Secondly, companies would be allowed to offset payments of advance corporation tax against corporation tax chargeable on capital gains.

In addition, corporation tax would be rationalised so that all companies and building societies would have to pay it nine months after the end of the relevant accounting period. (Varying intervals previously applied.)

As part of a programme of streamlining tax collection, a new method of collecting corporation tax – to be known as 'Pay and File' – would be introduced in the early 1990s. Under this system, a company would estimate its liabilities and pay corporation tax by the appropriate date. If the initial payment were too low, the company would pay interest to the Inland Revenue; if it were too high, the Inland Revenue would pay interest to the company.

Petroleum revenue tax (PRT) relief would be extended in two ways. First, companies would be allowed to set up to 10 per cent of the development costs of certain new oilfields against PRT liabilities on existing fields until the income from the new fields exceeded the costs incurred. Secondly, they would be permitted to set expenditure on oil research against PRT liabilities on any field.

In order to alleviate 'end-year bunching' of investment under the Business Expansion Scheme the rules would be altered so that, in the case of investment in the first half of a financial year, up to half the income tax relief could be claimed against the previous year's income.

The scale charges for taxing company cars, which still fell well short of the true value of the benefit, would be raised by 10 per cent in 1988-89.

For training financed by an employer and related to an employee's current job, Mr Lawson explained, the employer received tax relief on the costs incurred and the employee on the benefits enjoyed. These provisions would now be extended to training relevant to an employee's future job.

Recent years had seen a substantial growth in the number of small businesses and the self-employed, the Chancellor continued. The Government had done a great deal to lighten the burdens of 'this vitally important sector of the economy'. However, problems remained, not least with regard to value added tax (VAT).

Accordingly, the registration threshold for VAT was being raised from an annual turnover of £20,500 to one of £21,300 – the maximum permitted under European Community law. Another four proposals were derived from responses to a consultation paper issued by the Customs and Excise last autumn (see p 371, 1986). First, from 1 October and subject to permission from the European Community, businesses with an annual turnover below £250,000 (more than half of all registered for VAT) would be allowed to account for VAT on the basis of cash paid and received; they would thus not need to pay until they had been paid by their customers. This would ease problems of cash flow caused by late payers and also provide automatic VAT relief on bad debts. Secondly, from the summer of 1988 these businesses would have the option of paying VAT annually instead of having to pay it quarterly, as now. Thirdly, the notification period for VAT registration would be extended from 10 to 30 days. Fourthly, there would be some changes to the special VAT schemes applying to retailers. The cost of these four proposals would be £115 million in 1987-88 and £60 million in 1988-89.

Small businesses would be further helped by an increase in capital gains tax retirement relief. The maximum relief available on the disposal of a business on retirement would be raised from £100,000 to £125,000.

Mr Lawson had five proposals designed to reduce unintended or unjustified tax breaks, which caused tax rates to be higher than necessary. First, there would be a reduction in VAT relief on purchased inputs for those businesses in part liable to VAT. Also, a number of small businesses would be excluded from the scope of this relief. The change would yield some £300 million in 1987-88 and £400 million in 1988-89. Secondly, multinational companies with dual residence would no longer be allowed to claim tax relief twice on the same interest payment. The yield from this proposal would be £125 million in 1988-89. Thirdly, there would be a reduction in the double taxation relief available on the overseas lending of banks. They would no longer be allowed to offset against corporation tax on their profits as a whole foreign tax paid on interest received from overseas borrowers. In future, each loan would be considered separately so that tax relief would apply only to profits arising from that particular loan. The proposal would yield around £20 million in 1988-89. Fourthly, there would be a change in the tax treatment of Lloyd's insurance syndicates as applied to Lloyd's Reinsurance to Close[1] in order to bring it into line with the provisions for outstanding liabilities of ordinary insurance companies and other financial traders. Fifthly, the Government would implement the recommendation of the Keith Committee (see p 145, 1983) that interest should be charged in cases where a formal assessment had to be made to recover income tax as a result of an employer not applying the Pay-As-You-Earn system properly. The change would take effect in April 1988, with an estimated yield of £45 million in 1988-89.

Mr Lawson went on to announce a scheme of tax relief for profit-related pay, broadly along the lines of the proposals in the Green Paper published in July 1986 (see pp 273-4, 1986). Half an employee's profit-related pay – up to a maximum of £3,000 a year or 20 per cent of total pay, whichever would be the lower – would be exempt from income tax. He warned that profit-related pay was not a panacea. Instead, it was a tool to help business gradually to overcome one of Britain's most serious handicaps – the nature and behaviour of the labour market. He challenged management 'to take advantage of that tool and to make good use of it, for the good of their firm, their workforce and their country'.

Taxes on Saving

The creation of 'popular capitalism' was central to the Government's policies. This meant wider ownership of homes, shares and pensions. The Government had actively promoted the first two and had now started to promote the third. Home ownership had been encouraged through council tenants' right to buy their homes (see p 74); 63 per cent of households now owned their own homes. Share ownership had been helped through the rapid growth of employee share schemes (see p 273, 1986), the privatisation programme (see pp 154-6, 1986) and personal equity plans (see p 125, 1986). There were now some 8·5 million individual shareholders in Great Britain, around one-fifth of the adult population (see p 138).

On pensions, the cornerstone of the Government's strategy was the introduction of a new means of providing for retirement – the personal pension (see pp 71-2, 1986) – which would be launched at the start of 1988. In order to encourage a wider spread of occupational schemes, employers would be permitted to set up simplified schemes with the minimum of formality. There would be increased scope for transfer between different types of scheme.

From October, members of occupational pension schemes would be allowed to make additional voluntary contributions, with full income tax relief, to a separate plan of their own choice instead of, as now, being tied to plans within their employers' schemes.

By allowing people to transfer their pensions when they changed jobs, these proposals, together with other measures already taken, would be good for labour mobility and independence.

Warning that generous tax treatment of pensions could be justified only if it were not abused, the Chancellor proposed some limited changes to restrict the excessive relief which could sometimes be obtained.

The threshold for inheritance tax would be raised from £71,000 to £90,000 and the number of rate bands reduced from seven to four. The cost would be £75 million in 1987-88 and £170 million in 1988-89. Inheritance tax on gifts involving certain types of trust would be abolished.

Taxes on Spending

There would be an extension of VAT reliefs for the purchase by charities of a specified range of products.

[1]Lloyd's Reinsurance to Close is the payment of insurance premiums by the syndicate (in order to close a year of account) to the members who will assume the outstanding liabilities in the following year.

The ceiling on charitable donations subject to income tax relief under the payroll giving scheme would be raised from £100 a year to £120.

The gaming machine licence duty would be increased by about one-quarter, restoring it, in real terms, to its 1982 level. This would be offset by the abolition of on-course betting tax.

The duty on unleaded petrol would be cut by 5p a gallon so that its price should be no higher than that of four-star leaded petrol.

Income Tax

'Lower rates of income tax', Mr Lawson declared, 'sharpen up incentives and stimulate enterprise, which in turn is the only route to better economic performance.' Accordingly, the Government had consistently sought to reduce the burden of income tax. For 1987-88 the main thresholds and allowances would be raised by the statutory indexation factor of 3·7 per cent. The first higher rate threshold (for the 40 per cent rate) would be increased in line with indexation but the second one (for the 45 per cent rate) would rise by less than 1 per cent. There would be no changes in the other higher rate thresholds.

The age allowance, for those aged over 80, would be raised by twice the indexed amount while the blind person's allowance would rise from £360 to £540.

The Chancellor reaffirmed his objective of reducing the income tax rate to 25 per cent. However, in the light of his decision to direct the greater part of the fiscal adjustment towards a reduction in the PSBR, that goal could not be attained in this Budget. Nevertheless, he was taking a further step towards it by cutting the basic rate from 29 per cent to 27 per cent.

In 1987-88 the cost of the income tax changes would be just over £2,000 million, over and above the cost of statutory indexation.

On the same basis, the total cost in 1987-88 of all the Budget measures would be a little over £2,600 million.

Conclusion

In conclusion, Mr Lawson said that in his Budget he had reaffirmed the prudent policies which, despite the coal dispute of 1984-85 (see pp 47-8 and 77-8, 1985) and the collapse in the oil price, had given Britain its strongest economy since 1945. Following an autumn statement which had substantially increased public spending in priority areas (see pp 355-9, 1986), he had once again cut the basic rate of income tax while sharply reducing public borrowing. 'This is a Budget built on success, and a Budget for success. I commend it to the House.'

OPPOSITION VIEWS

Speaking for the official Opposition on 18 March (*Hansard*, Vol 112, No 75, cols 942-54), Mr Roy Hattersley said that the Labour Party approved parts of the Budget. He singled out the duty differential for unleaded petrol, the tax concessions for charities, the age and blind person's allowances, tax reliefs to encourage training and changes in VAT to help small businesses. However, he thought that it was not a prudent Budget and expressed concern that the tax cuts would intensify the credit boom and the pressure on imports. His view was that the Budget should have been built around four elements: an expansion in private sector employment; increased emphasis on training; public sector investment in infrastructure projects; and investment in public services.

Speaking on the same day for the Social Democratic-Liberal Alliance (*Hansard*, Vol 112, No 75, cols 965-9), Mr Roy Jenkins expressed the view that the Chancellor had not used the opportunity he had for the betterment of the British economy. The two main features of the Budget were the cut in income tax rates and the reduction in public borrowing. Both decisions were mistaken. Income tax reductions were an ineffective way of creating jobs while the containment of public borrowing was not the most efficient method of reducing interest rates.

Overseas Trade and Balance of Payments in 1986

The fall in the oil price led to a sharp decline in Britain's surplus on oil trade in 1986. The resulting large visible trade deficit was, despite the increase in the invisible trade surplus, sufficient to bring about a deficit on the current account of the balance of payments for the first time since 1979. There were substantial increases in capital outflows and inflows.

A summary of Britain's balance of payments in the years 1984-86 is given in Table 1.

Preliminary figures for 1986, together with revised estimates for 1984 and 1985, were published in a Central Statistical Office press notice on 5 March. Much of the information in this article, including Tables 1 and 5, is taken from the press notice while some of the commentary on visible trade is drawn from the latest annual report of the British Overseas Trade Board.[1] Tables 2, 3 and 4 are derived from the March issue of the Department of Trade and Industry's *Monthly Review of External Trade Statistics*.

CURRENT ACCOUNT

The current account of the balance of payments (consisting of visible plus invisible trade) was in deficit by £1,100 million in 1986, the first deficit since 1979. In 1985 there had been a surplus of £2,946 million. Although there was a sharp increase in the invisible surplus between 1985 and 1986, a very large rise in the visible deficit ensured a deficit on current account.

Visible Trade

For the fourth year in succession, there was a deficit on visible trade, amounting to £8,254 million compared with £2,178 million in 1985. The increase was largely the result of a deterioration in the balance of trade in oil. The surplus on oil trade fell from £8,105 million to £4,153 million while the deficit on non-oil trade rose from £10,283 million to £12,407 million.

[1] *British Overseas Trade Board. Report 1986*. Available free from the British Overseas Trade Board, Publicity Unit, Room 235, 1 Victoria Street, London SW1H 0ET.

Table 1

Balance of Payments

£ million

	1984	1985	1986
Visible trade balance	−4,384	−2,178	−8,254
Invisible trade balance	5,666	5,124	7,154
of which *Services*	*3,837*	*5,708*	*5,319*
Interest, profits and dividends	*4,145*	*2,937*	*4,256*
Transfers	*−2,316*	*−3,521*	*−2,421*
Current balance	1,282	2,946	−1,100
External assets and liabilities			
Transactions in assets	*−31,259*	*−50,215*	*−86,964*
Transactions in liabilities	*24,847*	*42,888*	*81,206*
Net transactions	−6,412	−7,327	−5,758
Balancing item	5,130	4,381	6,858

Table 2

Overseas Trade 1979-86

Balance of payments basis

	Exports f.o.b.* £ million	Imports f.o.b.* £ million	Visible balance £ million	Unit value indices (1980=100) Exports	Imports	Terms of trade†	Volume indices (1980=100) Exports	Imports	Relative volume index†
1979	40,686	44,135	−3,449	87·6	90·9	96·4	99·1	105·7	93·8
1980	47,422	46,061	1,361	100·0	100·0	100·0	100·0	100·0	100·0
1981	50,977	47,617	3,360	108·8	108·2	100·5	99·3	96·3	103·1
1982	55,565	53,234	2,332	116·2	116·7	99·6	101·9	101·5	100·4
1983	60,776	61,612	−836	125·7	127·5	98·6	103·8	109·7	94·6
1984	70,367	74,751	−4,384	136·0	139·7	97·4	112·5	121·8	92·4
1985	78,111	80,289	−2,178	143·5	145·2	98·8	118·7	126·0	94·2
1986	72,843	81,096	−8,253	136·6	134·0	101·9	123·1	133·9	91·9

*Free on board: values include all costs accruing up to the time of placing the goods on board the exporting vessel or aircraft.
†Export index as a percentage of import index.

In 1986 exports (on a balance of payments basis[1]) amounted to £72,843 million compared with £78,111 million the previous year (see Table 2). However, this fall in value disguised a 3·7 per cent increase in volume.

In 1986 imports (on a balance of payments basis) were valued at £81,096 million compared with £80,289 million a year earlier. The increase in volume terms was 6·3 per cent.

Overseas trade by commodity (on an overseas trade statistics basis) is analysed in Table 3.

Exports of oil declined from £16,134 million in 1985 to £8,221 million in 1986. However, with the oil price falling by up to 70 per cent compared with its average in 1985, even this decline in value terms represented an increase in volume.

[1]The primary difference between figures calculated on a balance of payments basis and those calculated on an overseas trade statistics basis is that the former exclude the cost of insurance and freight for imports and of returned goods for both imports and exports.

Non-oil exports rose from £61,977 million to £64,621 million, increasing in volume terms by 4·2 per cent. Exports of manufactured goods grew from £52,506 million to £54,595 million, representing a rise in volume of some 3 per cent. These increases were modest by the standards of recent years; they reflect the slowing in the rate of growth of world trade and were in line with the estimated volume growth in overseas markets for manufactures. Britain therefore probably retained its volume share of overseas markets but, because of the depreciation of sterling during the year, its market share may have fallen in value terms. Within finished maufactures, the main growth area was consumer goods (other than cars). Exports of capital goods and intermediate goods rose slightly or in some cases fell. This also reflected the pattern of world trade and economic activity, with buoyant consumers' expenditure in the developed countries resulting from the fall in the oil price.

Oil imports in 1986 amounted to £4,068 million. They had fallen by almost a half since 1985 (as had

Table 3

Overseas Trade by Commodity

Overseas trade statistics basis

	Exports (f.o.b.)			Imports (c.i.f.)*		
	1985 £ million	1986 £ million	1986 per cent	1985 £ million	1986 £ million	1986 per cent
Non-manufactures	**23,895**	**16,208**	**22·2**	**25,389**	**21,349**	**24·8**
Food, beverages and tobacco	4,971	5,478	7·5	9,337	10,067	11·7
Basic materials	2,128	2,046	2·8	5,388	4,988	5·8
Fuels	16,795	8,683	11·9	10,664	6,294	7·3
Manufactured goods	**52,506**	**54,595**	**74·8**	**58,312**	**62,833**	**73·0**
Semi-manufactures	19,842	20,671	28·3	21,243	22,673	26·3
of which *Chemicals*	*9,412*	*9,692*	*13·3*	*6,901*	*7,346*	*8·5*
Textiles	*1,709*	*1,712*	*2·3*	*3,032*	*3,163*	*3·7*
Iron and steel	*1,856*	*1,867*	*2·6*	*1,715*	*1,796*	*2·1*
Non-ferrous metals	*1,380*	*1,552*	*2·1*	*1,903*	*1,836*	*2·1*
Metal manufactures	*1,620*	*1,465*	*2·0*	*1,507*	*1,644*	*1·9*
Other	*3,865*	*4,383*	*6·0*	*6,185*	*6,888*	*8·0*
Finished manufactures	32,664	33,925	46·5	37,069	40,160	46·7
of which *Machinery*	*18,019*	*18,314*	*25·1*	*18,371*	*19,395*	*22·5*
Road vehicles	*3,911*	*3,954*	*5·4*	*6,801*	*7,940*	*9·2*
Scientific instruments and photographic apparatus	*2,969*	*3,128*	*4·3*	*2,935*	*3,078*	*3·6*
Clothing and footwear	*1,331*	*1,396*	*1·9*	*2,761*	*3,122*	*3·6*
Other	*6,434*	*7,133*	*9·8*	*6,201*	*6,625*	*7·7*
Miscellaneous	**1,991**	**2,206**	**3·0**	**1,326**	**1,884**	**2·2**
Total	**78,392**	**73,009**	**100**	**85,027**	**86,066**	**100**

*Cost of insurance and freight: values include the cost of insurance and freight from the country of consignment.
Note: Differences between totals and the sums of their component parts are due to rounding.

Table 4

Overseas Trade by Area

Overseas trade statistics basis

	Exports (f.o.b.)			Imports (c.i.f.)		
	1985 £ million	1986 £ million	1986 per cent	1985 £ million	1986 £ million	1986 per cent
Developed countries	62,787	57,708	79·0	71,665	73,285	85·1
of which *European Community*	*38,226*	*35,003*	*47·9*	*41,474*	*44,506*	*51·7*
Rest of Western Europe	*7,438*	*6,962*	*9·5*	*12,102*	*11,864*	*13·8*
North America	*13,332*	*12,128*	*16·6*	*11,709*	*10,054*	*11·7*
Other	*3,791*	*3,614*	*5·0*	*6,379*	*6,861*	*8·0*
Developing countries	13,876	13,139	18·0	11,327	10,514	12·2
of which *Oil-exporting countries**	*5,952*	*5,495*	*7·5*	*2,815*	*1,877*	*2·2*
Other	*7,924*	*7,644*	*10·5*	*8,512*	*8,637*	*10·0*
Centrally planned economies†	1,587	1,721	2·4	1,893	1,856	2·2
Total	78,392	73,009	100	85,027	86,066	100

*Algeria, Bahrain, Brunei, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Qatar, Saudi Arabia, Trinidad and Tobago, United Arab Emirates and Venezuela.
†Soviet Union, German Democratic Republic, Poland, Czechoslovakia, Hungary, Romania, Bulgaria, Albania, Vietnam, Mongolia, China and North Korea.
Note: Low value consignments are included in total exports and imports, but not in the allocation by area. Accordingly, the sums of the component parts do not equal the total figures given.

oil exports.) However, they, too, increased in volume terms.

Non-oil imports rose from £72,260 million to £77,028 million. This represented a slight decline in unit value (reflecting the weakness in commodity prices) but an increase in volume of 5·6 per cent. With consumer demand in Britain at a high level, there was a rise of 11 per cent in the volume of imports of

Table 5
Invisible Trade

£ million

	Credits			Debits			Balances		
	1984	1985	1986	1984	1985	1986	1984	1985	1986
Services	**21,531**	**24,205**	**25,067**	**17,694**	**18,497**	**19,748**	**3,837**	**5,708**	**5,319**
Private sector and public corporations	21,057	23,720	24,560	16,039	16,715	17,872	5,018	7,005	6,688
of which *Sea transport*	*3,254*	*3,276*	*3,019*	*4,386*	*4,436*	*4,246*	*−1,132*	*−1,160*	*−1,227*
Civil aviation	*2,931*	*3,188*	*2,937*	*2,683*	*2,886*	*3,152*	*248*	*302*	*−215*
Travel	*4,614*	*5,451*	*5,457*	*4,666*	*4,877*	*5,996*	*−52*	*574*	*−539*
Financial and other services	*10,258*	*11,805*	*13,147*	*4,304*	*4,516*	*4,478*	*5,954*	*7,289*	*8,669*
General government	474	485	507	1,655	1,782	1,876	−1,181	−1,297	−1,369
Interest, profits and dividends	**51,543**	**52,639**	**47,119**	**47,398**	**49,702**	**42,863**	**4,145**	**2,937**	**4,256**
Private sector and public corporations	50,937	52,079	46,503	46,069	48,195	41,177	4,868	3,884	5,326
General government	606	560	616	1,329	1,507	1,686	−723	−947	−1,070
Transfers	**3,798**	**3,323**	**3,694**	**6,114**	**6,844**	**6,115**	**−2,316**	**−3,521**	**−2,421**
Private	1,428	1,511	1,637	1,604	1,648	1,754	−176	−137	−117
General government	2,370	1,812	2,057	4,510	5,196	4,361	−2,140	−3,384	−2,304

manufactured consumer goods. Imports of capital goods fell in volume, probably as a result of the weakening of private investment in Britain. Imports of all manufactures increased by 6 per cent in volume. Although imports of commodities such as food and industrial materials rose by 7 per cent in volume, the weakness of commodity prices meant that the resulting increase in value was only 3 per cent.

Britain's overseas trade by area (on an overseas trade statistics basis) is analysed in Table 4.

In 1986 the developed countries accounted for 79 per cent of Britain's exports; 48 per cent of total exports went to the European Community. These figures were little changed from 1985. The United States was Britain's largest single market in both years, accounting for 14 to 15 per cent of total exports. In 1986, if oil exports are disregarded, the main growth in Britain's exports came from developed countries, especially those against which Britain's competitiveness had improved as a result of currency movements. Non-oil exports to Japan increased by 13 per cent, to the Federal Republic of Germany by 11 per cent and to the European Community as a whole by 10 per cent. In the face of the depreciation of the dollar, Britain's total exports to the United States declined by nearly 10 per cent.

Developed countries supplied 85 per cent of Britain's imports, a similar share to that in 1985, with the European Community accounting for 52 per cent of the total compared with 49 per cent the previous year. In both years the Federal Republic of Germany was Britain's largest supplier, with 15 to 16 per cent of the total. Imports from Japan accounted for 6 per cent of the total in 1986, having risen by 20 per cent since 1985. Imports from the United States made up 10 per cent of the total in 1986. They have, however, remained close to the depressed level reached in the latter part of 1985 following the rapid appreciation of the dollar; its subsequent depreciation has not been sufficient to prevent imports from the United States in 1986 being nearly 10 per cent below the 1985 level. Imports from the oil-exporting countries, which made up 2 per cent of the total in 1986, fell by 33 per cent over the year.

Invisible Trade

The surplus on invisible trade grew from £5,124 million in 1985 to £7,154 million in 1986 (see Table 5). The surplus on services fell by £389 million while that on interest, profits and dividends grew by £1,319 million; the deficit on transfers fell by £1,100 million. Credits totalled £75,880 million and debits £68,726 million.

Services

The surplus on services fell from £5,708 million in 1985 to £5,319 million in 1986. In volume terms, credits rose by 0·4 per cent but debits by as much as 4 per cent. Financial and other services was the only area in which the balance improved between the two years. For civil aviation and travel, surpluses in 1985 became deficits a year later.

Interest, Profits and Dividends

Between 1985 and 1986 the surplus on interest, profits and dividends for the private sector and public corporations increased from £3,884 million to £5,326 million. There were pronounced rises in net earnings on both direct and portfolio investment. Credits and debits attributable to direct investment both fell substantially, especially debits arising from direct investment in Britain of overseas oil companies. For portfolio investment, however, both credits and debits increased; with credits rising by more than debits, the surplus grew. There was a small increase in the deficit attributable to general government.

Transfers

The deficit on transfers declined from £3,521 million in 1985 to £2,421 million in 1986. There was little

change in the deficit of the private sector but a reduction of £1,080 million in that of general government. Receipts from European Community institutions grew substantially, with a particularly large increase in abatements of value added tax arising from Britain's excessive net contribution to the 1984 Community budget (see p 96, 1985).

TRANSACTIONS IN EXTERNAL ASSETS AND LIABILITIES

Between 1985 and 1986 net capital outflows resulting from the acquisition of external assets rose from £50,215 million to £86,964 million (see Table 1). There were small rises in direct and portfolio investment overseas but the main reason for the increase was a growth of almost £32,000 million in lending abroad by British banks.

Capital inflows rose from £42,888 million in 1985 to £81,206 million in 1986. There were relatively modest increases in inward direct and portfolio investment and a rise of nearly £35,000 million in overseas borrowing by British banks.

Share Ownership

Share ownership in Britain has trebled since 1979, according to a survey commissioned by the Government and the Stock Exchange, with almost 20 per cent of the adult population now owning shares.

The survey found that about 8·5 million people now own shares in Britain. The increase in ownership has been widely spread across social groups, the most marked increases being among the less well off. The extent of share ownership is thought to be approaching the level in the United States where about 25 per cent of adults own shares. The survey was carried out by NOP Market Research between 22 January and 18 February and took the form of interviews with just over 7,000 people who were chosen as representative of all adults in Great Britain. Applications for shares in British Airways (see pp 98-9) were not included, and nor were shares held in unit trusts and building societies. The results of the most closely comparable survey for 1979 showed that 7 per cent of adults then held shares. Another estimate, which probably excludes shares not quoted on the Stock Exchange, gave a figure of 5 per cent for 1979. Excluding unquoted shares from the new survey produces an estimate of 18 per cent.

Announcing the results of the survey in a speech during the Budget debate on 18 March (*Hansard*, Vol 112, No 75, cols 1010-11), the Financial Secretary to the Treasury, Mr Norman Lamont, said that the great majority of the 5·5 million new shareholders since 1979 had bought shares as a direct result of government policies. These were principally the privatisation programme (see pp 154-6, 1986 and COI reference paper *Britain's Privatisation Policy*, No 245/87) and the incentives provided for employee share schemes. The Government would continue to build on the success of the privatisation programme and intended to privatise Rolls-Royce, the aero-engine company, in the spring and the British Airports Authority in the summer (see pp 93-4, 1986).

It was also the Government's policy to sell its minority shareholdings in companies. Mr Lamont announced that, subject to market conditions, the Government would be selling the remainder of its shareholding in BP – some 580 million shares representing just under a third of the total – during the 1987-88 financial year.

The Government's measures to promote employee share ownership, and encourage people to identify with the company they work for, had met with spectacular success, he said. There were now more than 1,200 all-employee share schemes, compared with 30 in 1979.

Royal Ordnance Privatisation

The Government has announced the sale of its Royal Ordnance factories to British Aerospace. It is hoped that the transfer of these arms and ammunitions enterprises to the private sector will make them more efficient and enable the Ministry of Defence to secure better value for money in its procurements.

On 2 April the Secretary of State for Defence, Mr George Younger, announced that he had decided to accept British Aerospace (BAe) plc's offer of £190 million for Royal Ordnance (RO) plc, the government-owned arms and ammunition manufacturer (*Hansard*, Vol 113, No 86, cols 1238-9). The ordnance factories were formed into a public sector limited company in 1984[1] and began to compete with other suppliers for Ministry of Defence contracts. Originally the Government intended to float the new company on the Stock Exchange during 1986, but then decided to sell the Leeds tank factory to Vickers Shipbuilding and Engineering and RO's other 15 factories and research sites to a single bidder. Of the 14 private sector companies which initially expressed an interest in buying RO, BAe and GKN submitted final bids in March.

RO, which employs about 16,000 people, will become a wholly-owned subsidiary of BAe. Besides the £100 million contract for SA80 rifles awarded to RO's Enfield factory in March, the Ministry of Defence has also agreed to negotiate a five-year contract, starting in 1988, for the purchase of ammunition, explosives and propellants worth about £200 million a year. The Ministry will also contribute to BAe's extensive investment plans for the modernising of outdated plant at RO explosives and propellant factories. BAe has agreed not to sell any part of RO to an overseas buyer and to provide about £1 million worth of BAe shares as part of the purchase price. These shares will be given to eligible RO employees, fulfilling a promise made by the Government when the original flotation plans were announced in 1986. The sale of RO is conditional on its not being referred to the Monopolies

[1]The two plants manufacturing nuclear warheads were not included in this new company and remain in government ownership.

and Mergers Commission by the Department of Trade and Industry, acting on the advice of the Office of Fair Trading.

Since it became a limited company competing for defence contracts RO has discharged the £52 million debt it had at the end of 1985 and increased its profits from £9 million in 1985 to £24 million (unaudited) in 1986. The sale of RO, said Mr Younger, 'opens up the full range of opportunities for development and growth of business which are only really available in the private sector. . . . British Aerospace is a substantial and highly successful British company with a fine track record on exports, which . . . are vital to the future of Royal Ordnance.' Since 1977-78 the proportion of RO's sales going overseas has dropped from over 50 per cent to 18 per cent in 1986. BAe themselves point out that they will be able to offer RO extensive research and development facilities and knowledge. The two companies already co-operate on research on ammunition and propellants for BAe's missiles. Now BAe hopes to move RO more into the manufacture of high-technology 'smart' weapons like seeker and guidance electronics for missiles, where there is less international competition than in the sale of more traditional armaments. These changes mean that RO will have to rationalise its structure and BAe's large management team will provide needed expertise for this.

The sale will also free the Ministry of Defence of its dual role as both RO's owner and its major customer. This is in line with the ministry's policy of securing more effective competition in the supply of defence equipment in order to achieve the best value for money.

Computer Research

Two new Department of Trade and Industry-sponsored projects for research on computer-aided design have been announced. Both are in the design of very-large-scale integrated chips. The Department has also opened a mobile exhibition of British software for computer-aided design and computer-aided manufacturing. A Science and Engineering Council directorate has produced its annual report on research into advanced manufacturing technology.

Silicon Chip Research

The Department of Trade and Industry has announced proposals for the third in its series of National Electronics Research Initiatives (begun in March 1986), which enable firms to co-operate on pre-competitive research in a particular subject at a single location. The new programme, the Silicon Architectures Research Initiative (SARI) is to receive £5 million over three to five years and is to be based at Edinburgh University's Department of Electrical Engineering. The Government will provide funds for equipment and support staff, up to half of the project's total cost, and each participating firm will pay for its own research staff and related costs. Private companies involved in discussions on SARI include British Aerospace, Ferranti, Hewlett-Packard, Lattice Logic, Marconi, Mullard, Plessey, Racal, STL and Thorn-EMI.

The aim of SARI is to develop computer-aided design (CAD) of the features of very-large-scale integrated (VLSI) silicon chips, one of which can incorporate more than 100,000 transistors. It is hoped that by automating the design process new VLSI structures can be created in about two months rather than in the year or more that is needed at present.

Alvey Programme

CAD for VLSI research is also the subject of a £130 million scheme under the Alvey Programme (see p 34). The final new project in the scheme was announced on 2 February and will cost £6 million over two years. It will be led by ICL and will also involve six other companies, the Ministry of Defence's Royal Signals and Radar Establishment, the Science and Engineering Research Council's Rutherford-Appleton Laboratory and three universities. The project, which covers six tasks within CAD for VLSI, is complemented by a £15 million extension of 19 existing VLSI programmes. Of the total expenditure of £21 million about £12 million will be provided by the Government and the balance by the private sector.

Other Developments

On 16 March the Minister of State for Industry and Information Technology, Mr Geoffrey Pattie, launched the Department of Trade and Industry's EXPOCAD-CAM'87 roadshow. This mobile demonstration of British CAD and CAM (computer-aided manufacture) software began a ten-week tour of Switzerland, Austria and the Federal Republic of Germany on 25 March and will be the centrepiece of British Technology Day on 3 June at the CAT'87 Computer-aided Technology exhibition in Stuttgart.

The Science and Engineering Research Council's Application of Computers to Manufacturing Engineering (ACME) Directorate reports that it spent over £7 million during the financial year 1986-87 funding 81 research projects in advanced manufacturing technology in universities and polytechnics, many in collaboration with private companies. The ACME Directorate was formed in 1984 to promote highly innovative research and training in this sphere by higher education institutions working closely with industry. The research programme covers all phases of the manufacturing process. Specific areas of research funded by the Directorate include CAD, quality control, robotics, applied artificial intelligence and precision forming of materials.

On 16 February the Parliamentary Under-Secretary of State for Industry, Mr John Butcher, formally launched ComCentre, an advice and information service for industry on standards for inter-computer communications. Building on the success of its CIMAP demonstration (see p 28), the Department of Trade and Industry is providing £1 million to fund the centre for its first three years, after which it will become self-financing. ComCentre is based in Melton Mowbray, in the Midlands, and is operated by the Production Engineering Research Association. In addition to assembling and disseminating information on these standards, the centre also plans to install a test-bed facility to assist companies in product development.

Shorter Notes

HIGH TECHNOLOGY INDUSTRIES

The Department of Trade and Industry has devised new criteria for distinguishing high technology sectors within British industry. At present industries are assessed according to their research and development (R & D) intensity. The new definition, which draws on criteria used by the United States Government and the Organisation for Economic Co-operation and Development, also uses R & D intensity as the primary measure, although it is now defined as the ratio of R & D expenditure to gross output, rather than to the value added by the industry concerned. This allows service industries as well as manufacturing to be included in the high technology category.

Several sectors qualify as high technology because their R & D intensity is well above the 2 per cent average for manufacturing industry in Britain. These include aerospace equipment (with an intensity of 12·8 per cent in 1983), pharmaceuticals (12·5 per cent) and six branches of the electronics industry. Marginal cases, with an R & D intensity of between 2 and 2·4 per cent, are also assessed according to a second criterion – whether they employ a significantly higher proportion of scientists, engineers and technicians than does the average industrial sector. Using this yardstick the basic electrical equipment industry (producing such items as generators) and some parts of the instrument engineering sector have been re-classified as high technology. This new element in the definition also allows plastics and synthetic resins and rubbers to retain high technology status. As R & D expenditure data is not readily available for the service industries, the employment ratio is also used to assess them. Under it telecommunications, computing services and R & D institutes, all previously excluded, are now counted as high technology sectors.

Using the new definition, the manufacturing output of Britain's high technology industries grew at an average of 2·8 per cent a year over the period 1975-85, compared with a 1·1 per cent decline in manufacturing as a whole. The growth in output between 1982 and 1985 was 30 per cent. In 1985 high technology sectors accounted for 28 per cent of British manufacturers' exports and contributed a net £1,100 million to the country's balance of payments.

In view of the difficulty of defining the biotechnology industry, which is based on an enabling technology used in many different sectors, it is not included as a separate entity in these statistics.

Source: *Economic Trends*, February 1987. Central Statistical Office. HMSO, £9·25. ISBN 0 11 620264 5.

ENVIRONMENTAL PROTECTION TECHNOLOGY SCHEME

The Government has launched an environmental protection technology scheme with the aim of encouraging the development of cleaner industrial technologies. The scheme will publicise priority areas where more effective environmental protection technology is required, identify market opportunities for British firms, both in Britain and abroad, and offer part-funding for research and development.

The scheme will have three main parts: assembling information about existing clean technologies, pollution abatement equipment and environmental standards, both in Britain and abroad, and assessing opportunities for further research and development; setting priorities, in partnership with industry and pollution control authorities, for areas where support for research and development should be focused; and taking measures to encourage research and development in these areas.

It will be organised within the Department of the Environment by an Environmental Protection Technology Adviser, in close co-operation with the Department of Trade and Industry's Warren Spring Laboratory (a government research establishment concerned with materials handling, processing and environmental technology), and will use an information base containing data on, and evaluation of, recent, current and developing technologies as well as information on environmental standards.

The Government is concerned to ensure that industry is fully and directly involved in identifying priority areas. The scheme will therefore be overseen by a management group bringing together people with direct experience in, and knowledge of, the main polluting industries and of clean technology development and manufacture, as well as people from within government who have expertise in pollution policy and pollution control practice and technology. The management group will take into account the recommendations of the Environmental Protection Technology Adviser in determining priority research and development areas, which will be kept under review and amended as necessary. Research and development will be encouraged in these areas through publicity and the dissemination of information to a wide range of industries and, where necessary, by the injection of pump-priming funds for selected projects. These would receive up to 25 per cent funding (50 per cent in the case of collaborative ventures). In 1987-88 the Government intends to make available some £500,000, with perhaps some £2 million each year thereafter.

Source: Department of the Environment press notice, 6.4.87.

SOCIAL AND CULTURAL AFFAIRS

Policies for Higher Education

A White Paper on higher education published on 1 April states that higher education should serve the economy more effectively; pursue basic scientific research and scholarship in the arts and humanities; and have closer links with industry and commerce. In order to improve the effectiveness of the system the Government proposes to widen access to higher education, remove polytechnics and other higher education colleges from local authority control, reform the University Grants Committee which allocates funds to the universities, and place new emphasis on the need for quality and efficiency.

MINISTERIAL STATEMENT

In a statement to the House of Commons on the publication of the White Paper[1] (*Hansard*, Vol 113, No 85, cols 1097-106) the Secretary of State for Education and Science, Mr Kenneth Baker, said that higher education was crucial to help Britain meet the economic, social and intellectual challenges of the final decade of the century. It was necessary to ensure that the universities, polytechnics and colleges responded to the country's requirements. Important reforms were already under way and efforts were being made, especially by the universities, to adapt themselves more closely to the needs of the nation. The White Paper announced new policies in three key areas: wider access to higher education so that the United Kingdom would get the skilled people needed for economic success and to compete in international markets; the financing and management of polytechnics and colleges in England; and the reform of the University Grants Committee, along the lines recommended in the Croham report.[2]

The Polytechnics

The polytechnics, conceived 21 years ago, were now successful, mature institutions with a strong national role, complementary to the universities, but were held back by current planning and funding arrangements. Control by individual local authorities inhibited their progress towards meeting the challenges of the 1990s and towards managing their resources to best effect.

The Government intended, therefore, to legislate to convert the polytechnics and other mainly higher education colleges in England to independent corporate bodies under boards of governors with strong representation by local and regional industry and commerce. Industry and these colleges should work more closely together and under the new arrangements industry would find it more attractive to place contracts for consultancy and research. A new Polytechnics and Colleges Funding Council would be set up, independent of the Government, although subject to guidance from the Secretary of State, which would succeed the National Advisory Body for Public Sector Higher Education and would contract with individual institutions.

Local education authorities would retain control of those colleges providing less advanced post-school education but the Polytechnics and Colleges Funding Council would be able to contract for the provision of degree and other advanced courses at these colleges. Less advanced courses would remain a local responsibility.

University Funding

Legislation would also be introduced to change the University Grants Committee to an independent statutory body. The Government accepted the Croham recommendations that this body should be smaller, with broadly equal numbers of academic and non-academic members, and a chairman with substantial experience outside the academic world. The new body would be called the Universities Funding Council and its primary responsibility would be the allocation of funds to individual universities under new contractual arrangements.

Access to Higher Education

The Government wanted to encourage more people of all ages to go on to higher education. Student numbers had increased by almost 160,000 since 1979. After its fall in the 1970s the participation rate for young people increased by 15 per cent, and the number of mature entrants had risen by about a quarter. The Government remained committed to providing places for all with the intellectual competence, motivation and maturity to benefit from higher education.

Over the next decade, however, the number of 18-year-olds would fall by one-third, and student demand would no longer be a sufficient basis for planning. A major determinant must also be the nation's demands for highly qualified manpower. The increase in graduate output already planned seemed unlikely to do more than keep pace with the nation's requirements until 1990, and might be insufficient by the mid-1990s. For the present, the Government's best judgment was that it should plan for an increase in full- and part-time student numbers from 906,000 in 1985-86 to 957,000

[1] *Higher Education: Meeting the Challenge.* Cm 114. HMSO, £4·50. ISBN 0 10 101142 3.

[2] *Review of the University Grants Committee.* Cm 81. HMSO, £7·20. ISBN 0 10 100812 0.

in 1990, an increase of some 50,000. By the year 2000 almost one in five school-leavers would then be going on to higher education. The Government wanted to ensure that within the total numbers the shift towards scientific and other vocational courses should be carried through.

Whether these numbers were reached would depend crucially on this shift being achieved; on whether the schools and colleges succeeded in raising the proportion of young people qualifying; and on whether the universities, polytechnics and colleges were able to admit more mature students and more young people with vocational qualifications.

Scientific Research

The quality of research in Britain was recognised worldwide. The Government was committed to maintaining and enhancing the strength and quality of the science base, of which institutions of higher education were a major and essential part. The Government attached particular importance to sustaining the work of the most able scientists and their teams and was therefore making available an additional £15 million for 1987-88 through the science budget [which would then stand at £675 million]. The consequences of the increase for later years would be taken into account in this year's Public Expenditure Survey but it had to be emphasised that the Government and the scientific community faced difficult choices in the future. It was necessary to be more selective and to concentrate resources in order to get even better value for money from better targeted research.

Britain's higher education was among the best in the world, concluded Mr Baker, and the Government's policies would secure and develop its distinctive strengths. They would extend its benefits to a wider section of the population and would ensure that it served the nation's needs.

THE WHITE PAPER

The White Paper starts by describing the aims and purposes of higher education. It gives student numbers for the various sectors from the 1970s to the present and discusses future demand, especially in view of the need for qualified manpower. The question of widening access is examined and such matters as student support, overseas students and continuing education are touched upon. Issues relating to quality and efficiency are then examined with reference to academic standards, the quality of teaching, achievements of students, research and links with industry. The reasons for the proposed changes in the management and funding of polytechnics are given and the proposals for reforming the University Grants Committee are explained. Brief references are made to how the proposals will affect institutions in Wales, Scotland and Northern Ireland. The White Paper is summarised below.

Aims and Purposes

The aims and purposes of higher education are defined as 'instruction in skills, the promotion of the general powers of the mind, the advancement of learning and the transmission of a common culture and common standards of citizenship'. The Government fully recognises the value of research, especially basic research, together with those areas of learning which have at most an indirect relationship to the world of work. The encouragement of a high level of scholarship in the arts, humanities and social sciences is seen as an essential feature of a civilised and cultured country. Undergraduate education in these disciplines is valued by employers, both as a basis for professional training and in its own right.

In spite of the high standard of higher education the White Paper considers that reforms are needed so that areas of excellence can be built upon. Above all, it sees an urgent need to take increasing account of the country's economic requirements. The achievement of greater commercial and industrial relevance in higher education depends much on close communication between academic staff and people in business.

The Government and its funding agencies will encourage and reward approaches by higher education institutions which bring them closer to the world of business. Significant advances have been made – for example, universities' research income from industry has doubled since 1981 – but links between higher education and industry are less close than in many of Britain's competitor countries.

Access to Higher Education

The proportion of 18- to 19-year-olds (expressed as a percentage of that age group) entering higher education rose from 12·4 per cent in 1979 to 14·2 per cent in 1986, while mature entrants (aged 21 and over) have increased by a quarter since 1979. The increases have been particularly marked for women who now account for about 44 per cent of full-time students compared with less than 40 per cent seven years ago. Virtually all of this increase has taken place in the 30 polytechnics in England and Wales, the 16 central institutions in Scotland and some 455 other colleges throughout Great Britain. The polytechnics and colleges have also accommodated over three-quarters of the 27 per cent increase since 1979 in part-time students. The proportion of students on full-time science-related courses has increased – from 50 per cent to 53 per cent in universities and from 36 per cent to 41 per cent in the polytechnics and colleges.

Comparisons with higher education rates in other countries are not straightforward but on the basis of the proportion of the relevant age group gaining degrees and higher diplomas Britain is on a par with France and ahead of the rest of the European Community but behind Japan and the United States. However, such comparisons take no account of quality on which the reputation of higher education in Britain is high.

The White Paper examines alternative projections for future student numbers, a higher projection being based on the assumption that the proportion of young people entering higher education by means of the traditional qualifications gained at school will increase, particularly among young women. This would increase the proportion of 18- to 19-year-olds entering higher education to 18·5 per cent by the end of the century. This projection also assumes that more young people with vocational qualifications will progress to higher education.

Need for Qualified Manpower

A major determinant in planning higher education must be the demands for highly qualified manpower. A programme to increase the number of graduate

scientists and engineers has successfully been launched and, with other initiatives, should lead by 1990 to increases of 35 per cent and 25 per cent in science and engineering graduates respectively, compared with 1980. Action is also being taken to alleviate the shortage of mathematics and physics teachers in schools. In taking these steps the Government in no way implies that it undervalues the contribution of the arts, humanities and social studies to the future needs of the economy as well as in the enrichment of the national culture. Employers' recruitment patterns show that they value much that is studied in these areas, in particular the analytic, critical and communication skills which these disciplines help develop.

Unemployment among new graduates is at the lowest level for seven years and data from the Labour Force Survey indicate that graduates are less than half as likely as others to be unemployed. It is planned, therefore, to increase student numbers by 5 per cent between 1985 and 1990, followed by a return to present levels in the mid-1990s when the 18 to 19 age-group will have fallen by a third. Attaining this objective, however, will depend on achieving the necessary shift towards science, engineering and vocational courses to produce the balance of skills which the nation requires; the success of the schools and colleges in raising the proportion of young people qualifying for entry; commitment by institutions to admitting more mature students and those without traditional qualifications; and better value for money from the public funds available.

Widening Access

While the more usual route into higher education is by means of traditional qualifications obtained at school the Government believes that more positive steps should be taken to increase the number of higher education entrants with vocational qualifications. The polytechnics and colleges already provide substantially for such students and the universities should move in the same direction. 'Access courses' – the third means of entry – have developed more widely in recent years to assist those, mainly mature, students lacking the usual qualifications. The Government recognises their importance in increasing participation in higher education and believes that courses can benefit from students admitted in this way.

Student Support

The Government acknowledges that future arrangements for student support will have a bearing on demand, especially from mature and part-time students. Student support arrangements are being reviewed separately and the Government's conclusions will be announced in due course. The review will take account of the importance of maintaining access to higher education by students from all social and economic backgrounds.

Overseas Students

Britain welcomes overseas students and the Government maintains its commitment to targeted support for them – at present some £86 million a year. It recognises also the educational benefits that their presence can bring to higher education institutions. After a decline following the introduction of full-cost fees in 1980, the number of overseas students has increased and is again approaching the high level of 1978.

Continuing Education

The importance of adults continuing education is now widely accepted both to make good any deficiencies in earlier education and to update skills. Particularly good progress is being made in in-career vocational education through the Professional, Industrial and Commercial Updating (PICKUP) Programme and many colleges and universities have adopted a new approach to the provision and marketing of courses for industry and commerce. The Government is providing finance for a network of Technology Centres (see p 29) which will encourage greater collaboration between industry and education.

The Government sees great potential in distance learning with the spread of video-recording and playback facilities and the development of interactive video instruction technologies. It intends to facilitate the extension of these techniques and build on the foundations laid by the Open University and the newly developing Open College (see p 277, 1986) [whose prospectus was published in early April].

Quality and Efficiency

Higher education in the United Kingdom is more expensive per student than in most other developed countries, largely because of high student support costs. Productivity has increased greatly since 1979, however, and while the total number of students has increased from 778,000 in 1979 to some 934,000 in 1986 and the number of full-time sandwich students from 510,000 to 594,000 average unit costs have fallen in real terms as a result of the achievements of many institutions in seeking better value for money.

Codes of practice on academic standards in universities were published in 1986 by the Committee of Vice-Chancellors and Principals which cover the maintenance and monitoring of standards, external examining and postgraduate training and research. In the Government's view the universities should do more to reassure the public about the ways in which they control standards. In the polytechnics and colleges national responsibility for the academic approval of degree courses rests mainly with the Council for National Academic Awards. In the belief that quality is best assured when institutions accept maximum responsibility for their own standards the Government has asked the Council to develop a process of 'self-validation' for many colleges. At the same time the system of external examiners is being strengthened as a further safeguard of standards.

Below degree level the Business and Technician Council, which has a corresponding responsibility for the quality of vocational qualifications in England, Wales and Northern Ireland, has been moving towards simpler initial course approval, more vigorous checks on courses in operation and greater autonomy for major centres. The Government expects the Council to work more closely with the various industrial and professional bodies concerned within the framework being developed by the recently established National Council for Vocational Qualifications (see p 232-3, 1986[1]).

[1]This article was reproduced as COI reference paper *Vocational Education and Training*, No 282/86.

Her Majesty's Inspectorate will continue to report on polytechnics and colleges and assess standards and trends nationally.

The Government believes that standards of teaching can be helped by systematic arrangements for staff training and development; staff appraisal; evaluation of the results achieved; involvement in vocational courses; and feedback from students. It points out that staff appraisal is now widely accepted in public and private sectors of employment, both for its contribution to personal development and for its usefulness to management. These principles apply equally to higher education. A code of practice and guidelines are to be published in 1987 by the Committee of Vice-Chancellors and Principals which will apply to university academic staff and progress has been made in some polytechnics and colleges, though there are no systematic arrangements.

Greater attention should also be given to evaluating students' achievements. The numbers and classes of degrees awarded are an indicator, as are the non-completion rates, and the subsequent employment patterns of students provide some indication of the value of courses to working life. The Government believes that data on performance in each institution should be published so that its record can be evaluated by funding agencies, governing bodies, students and employers.

Research

The quality of Britain's academic research is recognised worldwide. Its scientists have an outstanding record and in volume and influence their work is second only to that of the United States.[1] In this area Britain has a reputation and strength which must be maintained and enhanced. The research carried out in higher education institutions provides the knowledge base for industry and commerce and is a major source of trained people. Basic research – concerned with the advance of knowledge – and strategic research – speculative but with clear potential for application – are just as important to industry as applied research. Criticism of the unwillingness of some institutions to work with industry is much less deserved than formerly and notable successes in partnership between higher education and industry and commerce are now frequent.[2] Such co-operation could nevertheless become more common, given greater determination on both sides, and the Government is considering how it can encourage greater investment in research and development, including research in collaboration with higher education.

The Government accepts its responsibilities to provide the main funding for maintaining and enhancing the strength and quality of the science base but pressures on resources are inevitable and affect all countries.[3] Difficult choices have to be made with high priority being given to areas likely to lead to useful applications. The obligation to select lies particularly on the research councils and the Advisory Board for the Research Councils and on the universities, guided by the University Grants Committee. In the polytechnics and colleges the Government's aim is to provide support for work of clear relevance to the needs of industry and commerce and greater funds are being made available to those institutions that have been successfully involved with industry and commerce.

The Government believes that these approaches are yielding much increased value for money and that there is a clear prospect of a steadily better targeted effort from basic science to applied work in effective partnership with industry.

Apart from links between higher education and industry in the field of research there is collaboration in the provision of courses or services. The Government is keen to foster further collaboration and in 1986 established the LINK programme to stimulate the transformation of basic research data into commercially exploitable ideas (see p 29). In addition various schemes are in operation to make students aware of the challenges and opportunities of enterprise and the Government proposes to encourage their further development.

Efficiency

For the universities the University Grants Committee has had a key role in promoting efficiency. It has reviewed its system of making grant allocations to universities for teaching and research and has embarked on a programme to rationalise university departments in a wide range of subjects. The Government funded the work of the Committee of Vice-Chancellors and Principals' Steering Committee for Efficiency Studies and a report of individual universities' responses is to be published in 1987. Proposals have also been adopted for the regular publication from 1987 of efficiency and effectiveness indicators. The question of recent practice in granting tenure to academic staff is also being examined.

For the polytechnics and colleges the National Advisory Board is undertaking a good management practice study which has so far suggested that good management in that sector is inhibited by the involvement of local authorities in institutions' affairs (see below). As with the universities much remains to be done and the Government will look to the proposed new planning and funding body to promote performance indicators in polytechnics and colleges.

In Scotland efficiency and value for money are being examined in a financial management survey of the central institutions.

Changes in Structure and Management

Changes are proposed in the management of the polytechnics sector of higher education in England and in the shape and constitutional position of the University Grants Committee. The future planning and funding of Scottish universities is also considered.

Polytechnics and Colleges in England

In England 405 institutions outside the universities provide higher education: 29 polytechnics and 346 other colleges under local education authority control, together with 30 voluntary and other colleges directly funded by the Department of Education and Science. The polytechnics and colleges play a distinctive and increasingly important part in higher education, especially in technological and vocational fields.

[1] See COI reference paper *British Winners of Nobel Prizes*, No 99/84.

[2] For example, in science parks – see COI reference paper *Science Parks in Britain*, No 265/85.

[3] See COI reference pamphlet *The Promotion of Science and Technology in Britain*, No 233/86.

The Government has concluded that it is no longer appropriate for polytechnics and other colleges offering predominantly higher education to be controlled by individual local authorities since they have strong national as well as local roles, recruiting students nationally and meeting the needs of employers nationwide. They offer all major subjects except medicine and cater on average for more students than universities. The present relationship between institutions and local authorities often inhibits good management of finance and staff and a closer relationship between institutions and industry. It is proposed therefore to remove the polytechnics and 29 other institutions from local authority control (a further group of 11 colleges will have the choice to opt for the new arrangements) and to re-establish them with corporate status, new governing bodies (see above), and their own staff, land and buildings. In addition 25 of the voluntary and other colleges will be covered by the new arrangements. In place of grants paid by the local authority or central government there will be a system of contracting between the institutions and the new Polytechnics and Colleges Funding Council which will distribute funds supplied by central government. Before contracts are entered into the Council will assess the performance of institutions. This arrangement is designed to encourage institutions to seek contracts from other sources and reduce their dependence on public funds. The institutions within the ambit of the Polytechnics and Colleges Funding Council will include those providing most of the initial teacher training courses outside the universities. The Council will also be responsible for planning and funding degree courses and others of equivalent level in the colleges remaining under local authority control.

The Government believes that these reforms will provide an improved setting within which the polytechnics and colleges can pursue educational effectiveness and efficiency, develop entrepreneurial skills and respond to national needs. At the same time their regional and local roles should in no way be diminished.

University Funding

The 47 universities in England, Scotland, Wales and Northern Ireland have their own identities defined by royal charter or statute. Except for the privately funded University of Buckingham they are funded by central government and, apart from the Open University, receive the greater part of their public funding from the University Grants Committee. The Government has accepted the recommendations of the Croham report that the Committee should be reconstituted as the Universities Funding Council (see p 141) and proposes that the payment of grants to universities should be replaced by a system of contracting as in the polytechnics and colleges sector. The Government agrees with the Croham report that it should play no part in the distribution of funds between individual universities and that the Universities Funding Council should have the power to require that funding is, or is not, spent for a particular purpose.

Polytechnics and Colleges in Wales

In Wales higher education outside the universities is provided by one polytechnic, 20 other local authority maintained colleges and one voluntary college funded by the Welsh Office. This sector is planned and developed through the Wales Advisory Board for Local Authority Higher Education which is at present reviewing courses in a number of subject areas with a view to rationalising provision. These reviews will indicate whether the Board, the University Grants Committee (and its successor) and the University of Wales can work successfully to develop a coherent system of higher education in Wales. The Government expects the Board to continue to operate as a national advisory body and is not at present proposing to establish a Polytechnic and Colleges Funding Council for Wales.

Higher Education in Scotland

The Government agrees with the Scottish Tertiary Education Advisory Council that there is scope for improvement in the co-ordination and planning of the university and colleges sector of higher education in Scotland. Equally, however, it is concerned to ensure that the planning and funding of the eight Scottish universities is not divorced from that of universities elsewhere in the United Kingdom. It is proposed therefore that the new Universities Funding Council should cover all the universities at present funded on the advice of the University Grants Committee but should establish a Scottish Committee after consultation with the Secretary of State for Scotland and take account of that committee's advice in the development of its policies.

Higher Education in Northern Ireland

It is intended that the Universities Funding Council should advise the Department of Education for Northern Ireland on the funding of the universities in Northern Ireland and that they should continue to be funded on the basis of parity of provision with institutions in Great Britain. In formulating its advice the Council will take account of the views of a Northern Ireland Working Party.

Other Institutions

The Government recognises that there may be reasons why the Open University, the Cranfield Institute of Technology and the Royal Colleges of Art, which are at present funded directly from the Department of Education and Science, should continue to be funded separately but will be discussing with each the possibility of its coming within the ambit of one of the proposed new planning and funding bodies.

Landlord and Tenant Bill

A Bill to protect the interests of leasehold tenants has received an unopposed second reading in the House of Commons.

The Landlord and Tenant (No 2) Bill is based almost entirely on the recommendations of the Nugee Committee which was set up in 1984 to advise on dealing with the problems being increasingly experienced by leaseholders and other tenants. These include the imposition of excessive insurance and service charges, neglectful landlords, mismanagement by management

agencies, and defective leases, many of which, additionally, are nearing the end of their term with a consequent depreciation in the market value of the properties to which they relate. The Committee reported in November 1985 and the Government accepted its report in April 1986.

Minister's Speech

Introducing the Bill (*Hansard*, Vol 113, No 83, cols 769-812), the Minister for Housing, Urban Affairs and Construction, Mr John Patten, described it as an important and far-reaching measure aimed at bad, irresponsible and neglectful landlords and which would affect about 500,000 households in privately owned or rented flats, a high proportion of them in London and the South East. It applied to mansion blocks, purpose-built blocks erected between the wars and in the last 20 years and to converted houses alike. About two-thirds of the occupants of these properties were long leaseholders and the remainder tenants under the Rent Act 1977; the Government wished to protect all of them by giving them an important range of new rights.

The Bill, continued Mr Patten, was further evidence of the Government's balanced approach to housing problems. It had done much to promote housing rights: in the public sector it had given tenants the right to security of tenure, the right to buy their own homes, the right to get repairs done, and the right to be consulted about matters affecting their tenancies.[1] The Government believed that the provision of housing should be primarily a matter for the independent sector, but it was prepared to regulate that sector to give people statutory rights where necessary. The Bill would significantly strengthen the rights of residents in private flats.

Main Provisions

Enumerating the Bill's provisions, Mr Patten explained that Part I gave tenants a right of first refusal where the landlord wished to dispose of his or her interest in a block of flats – a matter on which the British Property Federation had already issued guidance to its members. The Nugee report had suggested a procedure for negotiating a price within a set timetable; if the landlord failed to go through the procedure and sold to another person, the tenant would have the right to buy back the property, at the same price and on the same terms. Part II enabled any tenant of flats to apply to the courts for the appointment of a manager where the landlord had failed to discharge his or her obligations under the lease with regard to management of the premises. This would give residents a practical remedy in blocks of flats that had been neglected and where the landlord had refused to put matters right.

Under Part III, the majority of leaseholders of flats in a block let wholly or mainly on long leases would be able to apply to the court for an order to acquire compulsorily the landlord's interests where the landlord had failed to discharge his or her obligations and the appointment of a manager would not be an adequate remedy of last resort in cases of exceptional mismanagement. Part IV empowered a court to vary the terms of a long lease of a flat if the lease was defective in that it failed to make satisfactory provision for management of the flats. This would enable any party to the lease, such as a landlord and the majority of long leaseholders, to apply for an order to vary all the leases in the block where some changes affecting the entire block were desirable but where a minority of leaseholders withheld their consent.

Turning to Part V, which deals directly with the management of blocks of flats by managing agents, Mr Patten said that the Bill strengthened and extended the provisions of the Landlord and Tenant Act 1985[1] and gave recognised residents' associations the right to be consulted about the appointment of managing agents. It also extended the permissible objects of registered housing associations to include the management of blocks of flats.

Part VI, continued Mr Patten, extended a residential tenant's right to information about his or her landlord's name and address in England and Wales, which had to appear on any written demand for rent or service payments and at which notices could be served on the landlord by the tenant. It also contained provisions which would make a former landlord liable for his or her contractual obligations until he or she (or a new landlord) notified the tenants of the name and address of the new landlord to whom the interest in a block of flats had been sold.

Acknowledging that there had not been enough time to include within the Bill a number of important recommendations about insurance and the treatment of service charges made by the Nugee Committee, Mr Patten said that he proposed to bring forward appropriate amendments during the Bill's passage through the House; other recommendations were also being considered.

Conclusion

In conclusion, Mr Patten reiterated that a common thread running through the Government's housing policy was the objective of giving people more choice in the types of housing available to them and more influence over the way in which their housing was managed in both the public and the private sector. The Bill provided a framework for the orderly management of flats in private ownership and would bring the general level of management of flats much closer to the standards already achieved by many good landlords and managing agents.

[1]These rights were introduced in the Housing Act 1980 (see pp 56-8, 1980) and the Housing and Building Control Act 1984 (see pp 284-5, 1983).

Shorter Note

CARING FOR AIDS SUFFERERS IN THE COMMUNITY

At a conference on caring for sufferers from AIDS (Acquired Immune Deficiency Syndrome) held in London on 25 March, the Secretary of State for Social Services, Mr Norman Fowler, announced a series of measures to assist the nursing of AIDS patients who do not require acute hospital care. Taken together, these measures will cost some £250,000 and will focus primarily on the training of staff, the setting up

[1]See p 334, 1985.

of pilot projects and the co-ordination of forward planning and service provision. The following measures are to be taken:

1 the funding of a fellowship in each of the 14 health regions in England for a nurse to study and formulate ideas for nursing AIDS sufferers who are not in hospital. The fellowships will be tenable for three months, will be awarded centrally and will be open to any nurse in England with an interest in a community approach to the care and treatment of AIDS patients;

2 the funding, for one year, of two part-time training appointments for general practitioners on the care and treatment of AIDS sufferers in each of the three London regions where the majority of patients are at present treated;

3 the setting up of a pilot scheme for an AIDS Regional Development Advice and Support Centre to be run jointly by the health and local authorities. Serving as the focal point for education and support for families and others sharing the care of patients in their homes, this will be a community-based service to complement those provided through hospitals and clinics and will forge close links with voluntary bodies;

4 the establishment of a third counselling training unit for health care professionals in the Midlands and of a unit in London to meet the need for training hospital specialists and general practitioners in the clinical management of AIDS patients;

5 the funding of workshops in each of the health regions in England to offer training to community nurses on AIDS management;

6 the establishment of two working groups, led by the Department of Health and Social Security, one to examine social services care and support for AIDS patients, including training needs, and the other to advise on the implications of AIDS for the National Health Service.

Mr Fowler said that he was emphasising the importance of caring for AIDS sufferers outside hospital because he believed it to be the right approach, and one that was preferred by those being cared for, which could be made possible with additional help from statutory and voluntary services. Developing services to provide such help must remain the Government's objective.

For further information on government measures to control the spread of AIDS, see pp 26, 397-9, 1986 (reproduced as COI reference paper *Measures to Control the Spread of AIDS in Britain*, No 290/86) and 109-10.

Source: Department of Health and Social Security press notice, 25.3.87.

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